AR17

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(Unaudited $000's omitted)

| | First six months 1970 | First six months 1969 |
|---|---|---|
| **Source of Funds** | | |
| Earnings for period | $ 14,967 | $ 11,422 |
| Depreciation | 8,675 | 7,951 |
| Deferred income taxes | 2,856 | 3,186 |
| Bank term loans | 15,000 | 18,979 |
| Other (net) | 481 | 343 |
| | $ 41,979 | $ 41,881 |
| **Application of Funds** | | |
| Dividend | $ 10,176 | $ 9,158 |
| Capital expenditures | 6,712 | 36,546 |
| Long term debt reductions | 24,957 | 3,579 |
| | $ 41,845 | $ 49,283 |
| Change in Working Capital | $ 134 | $ (7,402) |
| Working Capital—January 1 | $(10,490) | $(14,122) |
| Working Capital—June 30 | $(10,356) | $(21,524) |

Deliveries of Crude Oil (barrels per day):

| | 1970 | 1969 |
|---|---|---|
| First quarter | 978,275 | 811,533 |
| Second quarter | 791,110 | 693,617 |
| Third quarter | — | 791,897 |
| Fourth quarter | — | 806,716 |

PRINTED IN CANADA

# INTERPROVINCIAL PIPE LINE COMPANY

## Quarterly Report

*for six months ended June 30, 1970*

# Interprovincial Pipe Line Company

and subsidiary companies

## REPORT FOR SIX MONTHS ENDED JUNE 30, 1970

To the Shareholders:

*Operating and Financial*

As indicated in the report for the first quarter, the import restrictions imposed by the United States retroactive to March 1, 1970, had a significant effect on the company's operations during the second quarter. After reaching a record high of 530,000 barrels per day in the first few days of March and averaging 492,000 b/d for the first quarter, deliveries of crude oil and natural gas liquids in the United States declined to 330,500 b/d in the second quarter.

Total deliveries during the first six months compare with 1969 as follows:

Deliveries (barrels per day)

| | First six months | |
|---|---|---|
| | 1970 | 1969 |
| Western Canada | 105,548 | 108,811 |
| United States | 410,893 | 300,349 |
| Ontario | 367,734 | 343,089 |
| | 884,175 | 752,249 |
| Barrel Miles (millions) | 217,047 | 174,248 |

Deliveries in the United States in 1970 included a total of 228,600 barrels (1,263 b/d) of U.S. domestic crude received into the system at Griffith Terminal near Chicago and delivered at Buffalo in June. This movement is expected to continue on an intermittent basis during the second half of the year.

As a result of increased transportation revenue, earnings increased to 59¢ per share compared with 45¢ in the first half of 1969. Comparative first quarter results were 34¢ per share in 1970 and 25¢ in 1969.

*Construction*

The revised 1970 expansion program is proceeding on schedule and capital expenditures are now expected to total $18.3 million. Following completion, capacity of the system will be increased by 135,000 barrels per day rather than the previously announced 75,000 b/d.

*Dividend*

On July 29, 1970 a quarterly dividend of 20¢ per share was declared payable September 1 to shareholders of record August 6, 1970.

D. G. Waldon
*President*

Toronto, Ontario
August 7, 1970

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## CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited $000's omitted)

| | First six months | |
|---|---|---|
| | 1970 | 1969 |
| Income | | |
| Transportation revenue | $66,221 | $54,616 |
| Other income | 730 | 374 |
| | 66,951 | 54,990 |
| Expenses | | |
| Operating | 12,721 | 12,155 |
| Taxes, other than income | 4,720 | 4,083 |
| Depreciation | 8,675 | 7,951 |
| Interest | 9,591 | 6,942 |
| | 35,707 | 31,131 |
| Earnings before income taxes | 31,244 | 23,859 |
| Provision for income taxes | 16,277 | 12,437 |
| Earnings | $14,967 | $11,422 |
| Earnings per share | 59¢ | 45¢ |

INTERPROVINCIAL PIPE LINE COMPANY

# REPORT OF THE TWENTY-FIRST ANNUAL GENERAL MEETING OF SHAREHOLDERS

*TORONTO, ONTARIO*

*APRIL 8, 1970*

# INTERPROVINCIAL PIPE LINE COMPANY
## ANNUAL GENERAL MEETING
## PROCEEDINGS

*The Twenty-first Annual General Meeting of Shareholders of Interprovincial Pipe Line Company was held in Toronto on April 8, 1970 and was chaired by Mr. D. G. Waldon, President. One hundred and thirty-four persons attended the meeting of whom 107 were shareholders. Including proxies, 76% of the total shares outstanding were represented.*

*In addressing the meeting, Mr. Waldon reviewed the operating results for 1969 and what may be expected in 1970. He also commented on the recently announced change in the U.S. Oil Import Policy and the research work that is being carried out by Mackenzie Valley Pipe Line Research Limited in the Arctic. His remarks have been printed for the benefit of those shareholders who were unable to attend the meeting.*

*Business transacted during the meeting included presentation of the Directors' Report to Shareholders and Financial Statements for the year 1969; and the re-appointment of Price Waterhouse & Co. as auditors.*

*The present Board of Directors was re-elected at the meeting, plus Mr. G. D. Wotherspoon, Q.C., to fill the vacancy created by the death of Mr. T. S. Johnston. Mr. Wotherspoon is Executive Vice-President and a director of Eaton's of Canada Limited and prior to joining Eaton's in 1965 was a senior partner in the legal firm of Osler, Hoskin & Harcourt, Toronto.*

*Following the formal proceedings the company's new film "Petroleum Lifeline" was shown.*

*At the Board meeting following the Annual Meeting the present officers of the company were re-elected or re-appointed. In addition Mr. R. K. Heule, General Manager was elected a Vice-President of the company. His new title is Vice-President & General Manager and he will continue to reside in Edmonton.*

## PRESIDENT'S REMARKS

Welcome to the Twenty-first Annual General Meeting of Shareholders of Interprovincial Pipe Line Company. It is good to see so many of you present. These are interesting and complex times in the oil industry—and we have a lot to talk about. I will try to be brief, however, as the film you are going to see runs close to thirty minutes. We also have some slides on the Arctic that I think you will find of interest.

As it is probably foremost on your minds—I will deal with the recently announced change in the U.S. Oil Import Policy early in proceedings. Later in my remarks, I will also bring you up to date on what we and our partners in Mackenzie Valley Pipe Line Research Limited have been doing in the Arctic—and lastly comment on the White Paper on Taxation. No talk on any subject these days is complete without at least a passing reference to this controversial document.

But first a few words about 1969. In most respects 1969 was a very gratifying year. The financial results were certainly far better than expected! When I appeared before you at the last Annual Meeting, I was firmly convinced that—with increased interest and depreciation charges as a result of the 1968 expansion program—we would be doing well if we earned as much as we did in 1968. Instead—mainly because deliveries in the United States were substantially higher than forecast—we earned 4¢ per share more (96¢ per share).

It is also a pleasure to be able to report that the major expansion program undertaken in 1969 was largely completed before the end of the year—comfortably within the budget. This is quite an

accomplishment in these days of escalating costs—and decreasing productivity. Our main line contractors did very well by us—as did our own people who managed the projects—and acted as inspectors.

A welcome side effect of the combination of increased earnings and staying within the construction budget was that only $80 million of the $85 million bank line of credit had to be used.

The only thing that detracted from an otherwise very satisfactory year was that exports to the United States were exceeding the level that had been agreed to [exchange of Diplomatic Notes] between Ottawa and Washington in September 1967—and the Canadian authorities were continually endeavouring to convince the U.S. refineries to bring them in line. As much as we welcomed the additional throughput, we would have preferred it to have been with the concurrence of the United States. The long term outlook for Canadian crude in the U.S. is very good in our opinion—and we do not like to see it prejudiced in any way by short term gains.

The Canadian authorities were eminently successful in their endeavours during the second quarter of the year. This—combined with an unusual number of Canadian refinery shutdowns for maintenance—resulted in some wide swings in throughput. After averaging 811,533 b/d in the first quarter of the year—throughput declined to a low of 653,900 b/d in May—and then continued to increase to a high of 870,483 b/d in December. Deliveries to U.S. refineries averaged 317,563 b/d in the first quarter—declined to 272,413 b/d in May—and reached a high of 367,946 b/d in December.

Turning to the current situation. The recent Presidential Proclamation limiting imports of Canadian crude into Districts 1 to 4 to 395,000 b/d for the balance of 1970 from March 1 did not come as a surprise to Interprovincial. Districts 1 to 4 include everything east of the Rocky Mountains. We were surprised, however, at the extent of the reduction.

Since deliveries in the Chicago area commenced in January 1970, exports through our system alone had increased to 530,000 b/d—and Interprovincial had in fact become the bottleneck—limiting factor. We knew that this could not last—but we did not think the President would go as far as he did. With U.S. domestic production in short supply in some areas—some real hardships have been created. What the President has done in effect is revoke the overland exemption and this could only be done on the grounds of national security. In this context "security" means security of supply, certainly not defence.

The Presidential Proclamation states that the restrictions are just for the balance of the year—retroactive to March 1—the inference being that something of a more permanent nature will be worked out between now and then. We certainly hope so. It is difficult to plan the way things are.

The interim policy was of course as a result of the report that the Cabinet Task Force on Oil Imports handed down in February. This report was inconclusive, and the President appointed a new committee to administer oil imports. The majority recommended increased imports and a system of tariffs designed to force down the price of U.S. domestic crude—and the minority favoured retention of the present system with modifi-

cations. The present system limits imports into Districts 1 to 4 from all sources—including Canada—to 12.2% of domestic production. Among other things, the minority recommended that this percentage be increased by 1% per year for the next five years. Both recommended entering into negotiations with Canada immediately working toward some kind of common energy policy and the President has instructed the State Department to do this.

Imports into Districts 1 to 4 in 1969 incidentally amounted to 13.0% of domestic production. Not very far off the 12.2% target—in spite of the increase from Canada.

While the implementation of these restrictions has greatly reduced our throughput, it is to be noted that the new level is substantially higher than the 332,000 b/d provided for in the September 1967 agreement for 1970.

The way the interim system works is that all importers of Canadian crude by pipe line into Districts 1 to 4 were entitled to apply for a licence permitting them to import—during the balance of 1970—105% of what they averaged during the twelve-month period ending September 30, 1969. It is no coincidence that this works out to roughly 332,000 b/d.

Upon application, the balance of the 395,000 b/d was then divided among all new units applying for a quota—including the Chicago refineries. Lakehead even had to apply for the oil [725 b/d] it requires to operate its diesel pumping units in Minnesota and Wisconsin. The net result has been that the refineries served by Interprovincial have been licensed to import a total of 350,000 b/d from March 1 to the end of June—and the refineries

served by the Aurora pipe line system and by truck or rail, the balance of 40,000 b/d. Presumably the allocations in total will be substantially the same for the second six months of 1970.

So with deliveries in the U.S. during January and February averaging 484,000 b/d and the Ontario market holding up well—we find ourselves not too badly off in 1970. In addition it is possible that we will shortly be asked to commence transporting some U.S. domestic crude from Chicago to the two refineries in the Buffalo area.

Hopefully well before the end of the year we will have a better idea of how much Canadian crude will be allowed into the United States during the next several years—so we can firm up our construction plans.

In the meantime, we are going ahead with the relatively modest expansion plan outlined in the Annual Report. This $10 million program will increase the effective capacity of the system by approximately 75,000 b/d. In addition, since early in January we have had sufficient pumping equipment on order to increase the effective capacity by a further 40,000 b/d. This equipment could be in operation by the last quarter of 1970, if necessary, at a cost of $3 million. This would bring the effective or useable capacity of the system ex Cromer during the critical first quarter—winter months when the oil is the coldest and the demand is the highest—to 1,045,000 b/d. It would be at least 5% more than this in the summer months. Cromer is the critical point on the system—as it is the second largest receiving point. More oil is transported between Cromer and Gretna than in any other section of the system.

All the units in question will be installed at existing pump station locations—and when they are installed our present three-line system from Edmonton to Superior, as presently designed, will be fully powered. We might be able to do a little better by adding additional units on the No. 2 line from Cromer to Clearbrook but nothing substantial.

To further increase the capacity of the system beyond the 1,045,000 b/d level, we have two alternatives:

(1) we could commence constructing intermediate pumping stations on the 34-inch line—new sites—greatly reduced station spacing (which would later be used on the fourth line when it is constructed) or,

(2) we could start looping—and this time the looping will likely be with 48-inch pipe.

Because of the substantial sums of money involved, considerable more study has to be given the alternatives—but my guess at this time is that we will go the horsepower route commencing in 1971. A substantial increase in the demand could of course change our thinking. Another thing that could change it would be a decision to go ahead with Mackenzie Valley.

Which brings me to the next item I would like to deal with namely, what is going on in the Arctic.

As indicated in the Annual Report, back in June Interprovincial joined with Trans Mountain and four leading oil companies in forming Mackenzie Valley Pipe Line Research Limited. Four additional companies have since joined the group. The purpose of the research company is to thoroughly study the problems of constructing and operating

a large diameter crude oil pipe line from the North Slope of Alaska to Edmonton where it could connect with the existing Trans Mountain and Interprovincial systems. Trans Mountain had had a preliminary study made by Canadian Bechtel which was promising. But the problems in the Arctic are so great—and so different—that no one knew for certain that such a line could be constructed let alone how much it would cost.

The Trans Alaska pipe line system across Alaska to the Pacific had already been announced—and the tanker experiment through the Northwest Passage was being readied. The decision to form Mackenzie Valley was taken well before Imperial's discovery well at Atkinson Point on the Canadian side, however.

The feasibility of tankers operating in the Arctic has yet to be proven and the Trans Alaska system, as you have undoubtedly read, is still having its problems getting started. We had no idea that this would happen when we decided to go the research route—but in the light of Trans Alaska's experience we are certainly glad that we decided to undertake extensive research rather than rely on the usual engineering estimates.

At this point I would like to emphasize that Mackenzie Valley is not an Interprovincial project —far from it. We are just one of ten partners in the undertaking. If the line is ever constructed, however, we would expect to own a portion of it —and to also play a significant, if not exclusive, part in transporting the production east from Edmonton as far as Chicago and possibly beyond.

Much of the research effort is of course going into route selection, soil analysis, logistics,

hydrology, living conditions in the Arctic, etc. The most costly feature, however, is a 2,000-foot test section of 48-inch pipe in typical of the worst of the permafrost near Inuvik, N.W.T. Any pipe line that is constructed out of the North Slope of Alaska—or from the Mackenzie Delta on the Canadian side for that matter—is going to have to traverse many miles of what is known as detrimental permafrost—and nobody has constructed a pipe line of any size through or over this type of terrain—let alone a 48-inch line carrying oil at temperatures up to 150°F.

Even in the Arctic oil is produced at temperatures up to 160°F.—and the nature of the oil discovered on the North Slope of Alaska is such that it will be easier to pump if it is kept warm. Besides that—if it is to be produced at all—which it will be—it is going to have to be produced in quantity to be economically viable—and there is not going to be time—nor does it make economic sense to provide sufficient tankage—to enable it to cool.

Therefore, the problem is how to best move the hot oil through or over the permafrost without disturbing the terrain—remembering that even in the Arctic, atmospheric temperatures get up to 90° for a few days in the summer months. This extreme heat changes much of the countryside into a potential quagmire. Disturb that thin protective layer of tundra and you have real trouble.

At this point I would like to emphasize that when it comes to protecting the environment in the Arctic—the prospective pipe liners' interests are the same as the conservationists. A pipe line out of the Arctic will change the landscape, even scar it somewhat by its very existence—the same as anything constructed by man in the north does—

but nobody is going to construct a pipe line through the permafrost in such a way as to disturb it—because if they do they will lose their pipe line and their money. It is as simple as that.

Two basic types of construction have been used on the 2,000-foot test section—and it is planned to circulate oil through it at up to 150°F. until at least the end of June—and probably longer—to study the effectiveness of the insulation. The first type of construction is above ground on wooden piles and the second is what is known as gravel berm. In the latter type of construction the pipe is laid on top of a pad of gravel and mounded over with gravel of sufficient width and incline to allow migrating animals to cross.

As indicated in the Annual Report, preliminary indications on the feasibility of constructing such a line are promising. Considerable research has yet to be done—but we already know that the cost of a 1,700-mile 48-inch line—capable of carrying up to two million barrels of oil per day—will be well in excess of $1 billion, possibly as high as $1.5 billion. Such a line would require over 19 million barrels of oil just to fill it.

Further discoveries in the Canadian Arctic will enhance the chances of the line being constructed. On the other hand if the tankers prove successful—construction could be delayed for many years, if not indefinitely. In making this statement, I am assuming that—in spite of its troubles—Trans Alaska will be constructed. I think it will be—but I do not think it will be ready for operation in 1972 as originally planned.

In the meantime Mackenzie Valley is proceeding with its research in what I believe is an orderly

fashion and no announcements should be expected until the research has been completed. There is an old saying in pipe lining that the difficult is done immediately—the impossible takes a little longer. This project will take a little longer.

Mr. Clute will now show us a few slides of the test section at Inuvik and the Arctic in general. These were taken when a group of us visited the area on the 6th and 7th of March.

Regarding the White Paper on Taxation. Much has already been said and written on this subject and all I will take the time to do now is add our concern to the many already expressed. We will shortly be submitting a brief to the House of Commons and Senate committees outlining our views.

Speaking generally we find the White Paper a very disturbing document. Interprovincial's shareholders would not make out too badly under the complicated dividend gross-up proposal—but we find it distressing that the proposals taken as a whole will produce so much additional tax revenue. We share the view that taxes should not be increased under the guise of tax reform. We are also concerned that the proposals will discourage saving—particularly in the middle income group. Further, that if it has been decided that Canada must have a capital gains tax—which I am prepared to accept—that it is proposed that it be at a higher rate than in the United States. We also object to the five-year revaluation proposal and wonder how much it would cost to administer.

Returning to Interprovincial's operations, I am pleased to report that—after several million barrel days in January and February and the first part of March—deliveries in the first quarter of 1970

averaged 978,000 barrels per day. This represents a 20% increase over the corresponding period in 1969 (when deliveries averaged 811,500 b/d). As indicated earlier, however, because of the newly instituted restrictions in the United States—it is not expected that throughputs in subsequent quarters will be as high. 1970 should still see an improvement over 1969, however.

Our first million barrel day occurred on January 10 (1970) when 1,188,000 barrels of crude oil and natural gas liquids were delivered by Interprovincial and Lakehead. The all-time record was established on March 11 when 1,285,000 barrels were delivered. Quite a growth for an outfit that started off at 82,500 b/d in 1951.

On the negative side our interest bill increased by $750,000 per year on January 2, (1970) when the last of the original 3½% bonds—$15 million—matured and were replaced by bank borrowings.

Earlier I referred to our becoming the bottleneck back in February and March. I regret that this was true. If we had had more capacity the Canadian producers might have been able to sell a little more oil in the United States. I wonder how long it would have lasted, however, in view of the new restrictions that have been imposed. It is also interesting to contemplate what the situation would have been if we had decided not to risk the pre-investment required by the Chicago loop.

With Trans Mountain to the West Coast operating at capacity, for a while production and the capacity of the gathering lines were the limiting factors. The Alberta producers—both major and independent—rose to the occasion, however—at considerable expense—and we in Interprovincial congratulate them.

I am also pleased to report that the Clark Oil & Refining Corporation case has been satisfactorily concluded. By order dated March 19 and served on April 3, the full Interstate Commerce Commission dismissed Clark's complaint against Lakehead and Interprovincial. The majority of the Commission found that with the filing of tariffs to Chicago on January 1, 1970, the question was now moot. One Commissioner, however, found that the Commission has no jurisdiction regarding the validity or invalidity of the intergovernmental agreement dated September 1967—or of any restrictions on the importation of oil imposed by the Executive.

The next dividend is due the first of June. Just prior to this meeting your Board declared a second quarterly dividend of 20¢ per share payable June 1 to shareholders of record on April 30. This is the same rate as was established by the March 1 dividend.

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*This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale.*

NO SECURITIES COMMISSION OR SIMILAR AUTHORITY IN CANADA HAS IN ANY WAY PASSED UPON THE MERITS OF THE SECURITIES OFFERED HEREUNDER AND ANY REPRESENTATION TO THE CONTRARY IS AN OFFENCE.

*Additional Issue*

## $60,000,000

# Interprovincial Pipe Line Company

## 9⅜% Sinking Fund Debentures, Series B

To be dated December 1, 1970 | To mature December 1, 1990

The Series B Debentures will not be redeemable prior to December 1, 1985, for other than sinking fund purposes, from the proceeds of funds borrowed at a lower interest cost. Further particulars of the redemption provisions and particulars of the sinking funds, both mandatory and optional, are set out on pages 11 and 12.

**The Series B Debentures will, in the opinion of counsel, be direct obligations of the Company but will not be secured by any mortgage, pledge or other charge.**

**In the opinion of counsel, the Series B Debentures will be investments in which the Canadian and British Insurance Companies Act states that a company registered under Part III thereof may, without availing itself for that purpose of the provisions of subsection (4) of Section 63 of said Act, invest its funds.**

## Price: 100 and accrued interest

We, as principals, conditionally offer the Series B Debentures, subject to prior sale, if, as and when issued by the Company and accepted by us in accordance with the conditions contained in the underwriting agreement referred to under "Plan of Distribution" on page 13 and subject to the approval of all legal matters on behalf of the Company by Messrs. Osler, Hoskin & Harcourt, Toronto, and on our behalf by Messrs. Borden, Elliot, Kelley & Palmer, Toronto.

| | Price to public (1) | Underwriting discount | Proceeds to Company (1) (2) |
|---|---|---|---|
| Per unit | 100% | 1.45% | 98.55% |
| Total | $60,000,000 | $870,000 | $59,130,000 |

(1) Plus accrued interest from December 1, 1970 to the date of delivery.

(2) Before deducting expenses of issue estimated at $100,000.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the Series B Debentures in definitive form will be available for delivery on or about December 8, 1970.

# Wood Gundy Securities
**Limited**

Offices in 21 principal cities across Canada and in New York and London

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## The Company

Interprovincial Pipe Line Company (the "Company") was incorporated by Special Act of the Parliament of Canada on April 30, 1949, for the purpose of constructing, owning and operating an oil pipe line system. The head office of the Company is located at 10015—103 Avenue, Edmonton, Alberta and the executive office at 7 King Street East, Toronto, Ontario.

The pipe line system (which with the United States section is hereinafter collectively referred to as the "System") is the longest crude oil pipe line in the Western Hemisphere. The System now extends approximately 2,000 miles from Redwater, near Edmonton, Alberta, across the Canadian prairies through the Great Lakes region of the United States via the Straits of Mackinac to Port Credit, near Toronto, Ontario, with a lateral line to Buffalo, New York and a loop line between Superior, Wisconsin and Sarnia, Ontario via Chicago (see map).

The section of the System located in the United States is owned and operated by Lakehead Pipe Line Company, Inc. ("Lakehead"), a Delaware corporation which is wholly owned by the Company.

The following table indicates the growth of the System's operations during the five years and nine months ended September 30, 1970.

| | System operations | | | | | |
|---|---|---|---|---|---|---|
| | 1965 | 1966 | 1967 | 1968 | 1969 | Nine months 1970 |
| Total barrels delivered (thousands) | 203,689 | 220,807 | 232,611 | 262,322 | 283,229 | 239,643 |
| Average haul per barrel (miles) | 1,184 | 1,211 | 1,245 | 1,288 | 1,293 | 1,350 |
| Average barrels delivered per day | 558,045 | 604,944 | 637,290 | 716,727 | 775,971 | 877,812 |
| Average revenue per barrel (delivered) | 39.1¢ | 39.8¢ | 39.9¢ | 40.2¢ | 40.4¢ | 40.8¢ |
| Average revenue per 100 barrel miles | 3.30¢ | 3.28¢ | 3.21¢ | 3.12¢ | 3.13¢ | 3.02¢ |

## Consolidated Capitalization

| | Authorized | Outstanding on September 30, 1970 | Outstanding as at September 30, 1970 after giving effect to this issue |
|---|---|---|---|
| LONG TERM DEBT: | | | |
| Interprovincial Pipe Line Company— | | | |
| First Mortgage and Collateral Trust Bonds (1) | | | |
| Series C 4% due April 1, 1973 (2) | $59,264,000 | $20,372,000 | $20,372,000 |
| Series D 3⅝% due April 1, 1974 (2) | 29,414,000 | 11,951,000 | 11,951,000 |
| Series E 5½% due April 1, 1985 | 12,000,000 | 11,010,000 | 11,010,000 |
| Sinking Fund Debentures (3) | | | |
| Series A 6% due November 1, 1986 | 35,000,000 | 33,434,000 | 33,434,000 |
| Series B 9⅜% due December 1, 1990 (this issue) | 60,000,000 | — | 60,000,000 |
| Bank Loans (4) | | | |
| Repayable by July 1, 1971 | | 20,000,000 | — |
| Repayable over a six-year period commencing in 1971 | | 25,000,000 | 25,000,000 |
| Lakehead Pipe Line Company, Inc.— | | | |
| Sinking Fund Debentures (2) (5) | | | |
| Series A 6½% due August 1, 1992 | 32,298,000 | 32,298,000 | 32,298,000 |
| Series B 7⅛% due April 15, 1993 | 80,755,000 | 80,755,000 | 80,755,000 |
| Bank Loan (2) (4) (5) | | | |
| Repayable over a five-year period commencing in 1970 | | 32,072,000 | 32,072,000 |
| CAPITAL STOCK: (6) | | | |
| Shares of $1.00 par value | 100,000,000 shs. | 25,440,460 shs. ($25,440,460) | 25,440,460 shs. ($25,440,460) |

NOTES: (1) The bonds rank prior to the other indebtedness of the Company to the extent of the security created under the bond trust deed. No additional bonds may be issued under the bond trust deed.

(2) Included in long term debt outstanding on September 30, 1970 is the Canadian dollar equivalent of $167,564,000 (U.S.) principal amount which is payable in United States dollars.

(3) Additional debentures without limit as to aggregate principal amount may be issued subject to the restrictions contained in the Trust Indenture referred to under "Details of the Offering" on page 10.

(4) The bank loans which are unsecured bear interest based on the prevailing prime bank rates which may vary from time to time.

(5) Lakehead's debentures and bank loan are unconditionally guaranteed by the Company. Lakehead may issue additional debentures without limit as to aggregate principal amount subject to the restrictions contained in an indenture dated August 1, 1967 and indentures supplemental thereto.

(6) A total of 872,450 shares of capital stock were reserved at September 30, 1970 for issuance upon exercise of outstanding share purchase warrants. Reference is made to "Options to Purchase Shares" on page 16 and to Note 6 of "Notes to Consolidated Financial Statements" on page 22. In addition to the stated value of the outstanding shares as shown, the Company had consolidated retained earnings of $70,948,000 and contributed surplus of $20,100,000 as at September 30, 1970.

## Application of Proceeds

The estimated net proceeds from the sale of the Series B Debentures will amount to approximately $59,030,000 after deduction of expenses. Such proceeds will be added to the working capital of the Company and will be available to meet, in part, the cost of the Company's 1971 construction program in Canada, estimated at $35.8 million, as referred to under "Construction Program" on page 5 and to prepay a $20 million bank loan due July 1, 1971 which was incurred to meet, in part, the cost of the Company's 1968 and 1969 construction programs.

## The Pipe Line System

The System, following completion of the 1970 construction program (which is on schedule and will be substantially completed in December, 1970) will consist of approximately 5,156 miles of pipe with diameters ranging from 12 inch to 34 inch, 48 pumping stations with a total of 485,955 installed horsepower and tankage facilities of some 10,450,000 barrels. Line fill required for operation amounts to approximately 19,000,000 barrels, all of which is owned by the shippers. Through 24 delivery points the System serves 45 refineries located in eight Canadian and 14 United States centres.

The System is comprised of a number of separate lines of pipe as follows:

(i) A line extending from Redwater, Alberta to Port Credit, Ontario via Superior, Wisconsin and the Straits of Mackinac (of which 176 miles is looped with a second line) with a lateral line from Westover, Ontario to Buffalo, New York. The diameter of pipe in this line varies from 12 inch to 30 inch.

(ii) A line paralleling the above from Edmonton, Alberta to Superior, Wisconsin. This line consists of both 24 inch and 26 inch diameter pipe.

(iii) A line extending from Edmonton, Alberta to Sarnia, Ontario paralleling the two lines above to Superior, Wisconsin and via Chicago, Illinois to Sarnia, Ontario. This line consists of both 30 inch and 34 inch diameter pipe.

The location of the System, and of the connecting Tecumseh and Buckeye pipe lines which are not owned by the Company or Lakehead, and certain details of the System are shown on the accompanying map (see centrefold).

The annual average daily physical capacities of the various sections of the System on completion of the 1970 construction program may be found on page 5.

The pipe line in Canada is owned by the Company. The pipe line in the United States is owned by Lakehead. In general, the pipe line in both Canada and the United States is located on land owned by others and operated under easements or other rights or permits. With few exceptions, the easements are 60 feet in width and are granted to the Company or Lakehead, as the case may be, in perpetuity or for so long as the Company or Lakehead chooses to use them. In some cases in the United States, particularly in crossing federal or state-owned lands, Lakehead holds permits from the authority concerned. These permits are in some instances in perpetuity and in others for stated periods with rights of renewal.

The principal properties included in the System, other than the pipe line, are located on lands owned by the Company or Lakehead, except for two permanent and one temporary pumping stations of Lakehead which are located on land owned by others and are operated under easements or permits.

All of the properties of the Company and most of the properties of Lakehead, in each case whether now owned or hereafter acquired, are or will be subject directly or indirectly to the lien of the bond trust deed pursuant to which the first mortgage and collateral trust bonds of the Company were issued and are outstanding.

## Construction Program

System capital expenditures and retirements for the five years and nine months ended September 30, 1970, were as follows:

| | 1965 | 1966 | 1967 | 1968 | 1969 | Nine months 1970 | Total |
|---|---|---|---|---|---|---|---|
| | | | | (thousands of dollars) | | | |
| Capital expenditures | $11,172 | $4,513 | $76,721 | $114,189 | $70,595 | $11,923 | $289,113 |
| Retirements | 520 | 682 | 5,571 | 1,046 | 2,055 | 508 | 10,382 |

The Company's 1971 construction program in Canada is estimated to require expenditures of approximately $35.8 million while Lakehead's will require approximately $22.5 million (U.S.).

Following completion of these construction programs, capacity of the System between Edmonton, Alberta and Sarnia, Ontario will be increased by approximately 200,000 barrels per day. This will be accomplished by fully powering the present three-line system between Edmonton and Superior, Wisconsin, and adding pumping units as required on the southern line from Superior to Sarnia. The increase in capacity is the maximum practicable short of commencing construction of a fourth line between Edmonton and Superior.

Approximately $22.5 million of the Company's 1971 capital expenditures will be used to provide additional pumping equipment in Canada. This will consist of the installation of 33 pumping units totalling 134,000 horsepower at 16 existing stations and seven new locations. Approximately $8.4 million will be required for construction of 35 miles of 20 inch pipe paralleling the existing line between Sarnia and Port Credit, Ontario and 46 miles of 20 inch pipe paralleling the existing line between Westover, Ontario and the Niagara River. Approximately $3.9 million will be required for additional tankage and for tank farm modifications. The remaining expenditure of $1.0 million will be for station modifications, replacements and other minor additions.

Lakehead's principal 1971 capital expenditure will be approximately $19.0 million (U.S.) to provide additional pumping equipment in the United States. This will consist of the installation of 36 pumping units totalling 100,750 horsepower at 10 existing stations and 11 new locations. Approximately $2.8 million (U.S.) will be required for additional tankage and for tank farm modifications. The remaining expenditures will be for station modifications, replacements and other minor additions.

The annual average daily physical capacity of the various sections of the System following completion of the 1970 and 1971 construction programs is expected to be as follows:

| | System capacity following completion of: | |
|---|---|---|
| Section | 1970 construction | 1971 construction |
| | (barrels per day) | |
| Edmonton—Regina | 1,027,000 | 1,251,000 |
| Regina—Cromer | 1,017,000 | 1,236,000 |
| Cromer—Gretna | 1,104,000 | 1,308,000 |
| Gretna—Superior | 1,104,000 | 1,308,000 |
| Superior—Sarnia (via Straits of Mackinac) | 538,000 | 538,000 |
| Superior—Griffith | 398,000 | 621,000 |
| Griffith—Sarnia | 306,000 | 330,000 |
| Sarnia—Port Credit | 316,000 | 355,000 |
| Westover—Buffalo | 90,000 | 133,000 |

## Business of the Company

The Company and Lakehead are engaged exclusively in the business of transporting crude oil and other liquid hydrocarbons by pipe line at established tariffs which are discussed under "Tariffs" on page 7. Both companies operate as common carriers.

### *Shipments*

Shipments tendered to the System originate in all principal oil fields in western Canada and reach the System through gathering systems owned and operated by others. These gathering systems connect with the System at four receiving points in Alberta, two in Saskatchewan and one in Manitoba. In 1970 the System began to receive United States crude oil from other carriers at its Griffith, Indiana pumping station for shipment to Buffalo, New York. Since 1968 a small amount of crude oil from southwestern Ontario oil fields has been received by tank truck at the Company's Sarnia pumping station for shipment to the Toronto area. Shipments of natural gas liquids, which contain a mixture of propane, butane and condensate, commenced during 1970 from Edmonton for delivery to Sarnia. To meet the differing requirements of refineries, 31 types of crude oil and natural gas liquids were transported by the System in the first nine months of 1970.

During the first nine months of 1970, 33 shippers tendered crude oil and other liquid hydrocarbons to the System for shipment. Imperial Oil Limited, Shell Canada Limited, Gulf Oil Canada Limited, Texaco Canada Limited, Ashland Oil & Refining Company and Mobil Oil Corporation accounted for approximately 18%, 11%, 9%, 7%, 7% and 7% respectively of total System revenues. No other shipper accounted for more than 5% of such revenues.

### *Canadian Reserves and Production*

Proved reserves of liquid hydrocarbons in the Prairie Provinces have risen steadily since the discovery of the Leduc oil field in 1947. The growth of proved liquid hydrocarbon reserves in these provinces (excluding the Athabasca tar sands and certain deposits of heavy oils) during the five years ended December 31, 1969 is indicated by the following table:

| | Liquid hydrocarbon reserves in Prairie Provinces | | | | |
|---|---|---|---|---|---|
| | 1965 | 1966 | 1967 | 1968 | 1969 |
| | | (millions of barrels as of December 31) | | | |
| Alberta | 6,672 | 7,929 | 8,356 | 8,842 | 9,393 |
| Saskatchewan | 670 | 706 | 737 | 730 | 697 |
| Manitoba | 41 | 58 | 66 | 68 | 64 |
| Total | 7,383 | 8,693 | 9,159 | 9,640 | 10,154 |

Source: Canadian Petroleum Association, 1969 Statistical Year Book

Liquid hydrocarbon production in the Prairie Provinces (excluding synthetic crude oil production from the Athabasca tar sands) during the five years ended December 31, 1969 was reported as follows:

| | Liquid hydrocarbon production in Prairie Provinces | | | | |
|---|---|---|---|---|---|
| | 1965 | 1966 | 1967 | 1968 | 1969 |
| | | | (millions of barrels) | | |
| Alberta | 226 | 249 | 281 | 307 | 343 |
| Saskatchewan | 89 | 95 | 94 | 94 | 89 |
| Manitoba | 5 | 5 | 6 | 6 | 6 |
| Total | 320 | 349 | 381 | 407 | 438 |

Source: Canadian Petroleum Association, 1969 Statistical Year Book

Synthetic crude oil production from the Athabasca tar sands, which commenced late in 1967, amounted to 5.7 million barrels in 1968 and 10.1 million barrels in 1969.

The Company anticipates that the production potentially available for transportation through the System will continue to be in excess of the System's effective capacity following completion of the 1971 construction program.

The Company and Lakehead do not own any liquid hydrocarbon reserves or engage in the production of liquid hydrocarbons.

***Deliveries***

Deliveries from the System are made principally in the Province of Ontario and in the Great Lakes area of the United States to refineries as well as to other pipe line companies. Within these areas are located major refining centres near Sarnia and Toronto, Ontario; the Chicago area of Illinois and Indiana; Detroit, Michigan and Toledo, Ohio. Deliveries in Canada and the United States during the five years and nine months ended September 30, 1970 are indicated by the following table:

| | System deliveries | | | | | |
|---|---|---|---|---|---|---|
| | 1965 | 1966 | 1967 | 1968 | 1969 | Nine months 1970 |
| | (average barrels per day) | | | | | |
| Canada | | | | | | |
| Alberta | 16,975 | 12,252 | 11,344 | 10,251 | 10,657 | 15,410 |
| Saskatchewan-Manitoba | 89,143 | 94,565 | 95,706 | 96,581 | 100,847 | 97,634 |
| Ontario | 308,226 | 320,145 | 317,969 | 338,624 | 351,270 | 368,981 |
| Total Canada | 414,344 | 426,962 | 425,019 | 445,456 | 462,774 | 482,025 |
| United States | | | | | | |
| Minnesota-Wisconsin | 85,318 | 94,054 | 97,371 | 116,196 | 135,451 | 138,744 |
| Illinois-Indiana | — | — | — | — | — | 47,978 |
| Michigan-Ohio | 31,862 | 44,159 | 60,344 | 96,847 | 105,540 | 123,507 |
| New York-Pennsylvania | 26,521 | 39,769 | 54,556 | 58,228 | 72,206 | 85,558 |
| Total United States | 143,701 | 177,982 | 212,271 | 271,271 | 313,197 | 395,787 |
| Total | 558,045 | 604,944 | 637,290 | 716,727 | 775,971 | 877,812 |

Deliveries in Canada amounted to approximately 55% of total System deliveries during the first nine months of 1970, with Ontario accounting for approximately 42% of total deliveries. The System delivers substantially all the crude oil requirements of the refineries in Saskatchewan, Manitoba and Ontario. Deliveries in Alberta are made to Trans Mountain Oil Pipe Line Company at Edmonton for further shipment to west coast refineries in Canada and are also made through a connecting pipe line to Lloydminster; deliveries in Saskatchewan and Manitoba are made directly or through connecting pipe lines to refineries at Regina, Moose Jaw and Saskatoon, Saskatchewan, and at Winnipeg, Manitoba; and deliveries in Ontario are made directly to refineries near Sarnia and Toronto.

Deliveries in the United States during the first nine months of 1970 amounted to approximately 45% of total System deliveries. Refineries served in the United States, directly or through connecting pipe lines, are located at St. Paul and Wrenshall, Minnesota; Superior, Wisconsin; West Branch, Bay City, Alma, Trenton and Detroit, Michigan; Toledo and Canton, Ohio; Buffalo, New York; and Warren, Pennsylvania. Through connecting pipe lines, deliveries were made for the first time in 1970 to refineries located in the Chicago area, Fort Wayne and Laketon, Indiana and Carson City, Michigan.

The System delivered 283.2 million barrels in 1969 which the Company estimates represented approximately 59% of the total Canadian liquid hydrocarbon production in that year.

***Tariffs***

The Company and Lakehead have maintained joint tariffs for shipment over the System which are filed, where applicable, with the National Energy Board of Canada or the United States Interstate Commerce Commission. Charges for oil delivered by the System are paid to the Company which, in turn, pays Lakehead its share under the joint tariffs.

The System's tariffs, which were first established on November 10, 1950, have been voluntarily reduced from time to time. When first established, the tariff for transportation of light gravity oil from Edmonton to Superior was 54¢ per barrel and, in addition, the System was entitled to 1% of all oil received to cover handling and evaporation losses. In 1953 the rate from Edmonton to Sarnia was established at 64¢ per barrel. At the present time rates per barrel from Edmonton are 36.3¢ to Superior and 48¢ to Sarnia, and the 1% allowance for handling and evaporation losses has been eliminated. Separate tariff schedules with appropriate rates are also published for heavier grades of crude oil and for natural gas liquids. The tariffs for delivery in Ontario and most of the tariffs for delivery in the United States are payable one-half in Canadian currency, or its equivalent in United States currency, and one-half in United States currency, or its equivalent in Canadian currency.

***Competition***

The System constitutes the only crude oil trunk pipe line running to eastern markets from the oil fields of western Canada. The gathering systems and other trunk lines in the Canadian provinces served by the System are complementary to and do not compete with the System. If major oil discoveries are made off the east coast of Canada, some changes in supply patterns might develop for the Ontario market.

In the United States the System encounters significant competition from a variety of common carrier and other crude oil and product pipe lines including a 40 inch pipe line system ("Capline") which transports crude oil a distance of 630 miles from the producing areas of Louisiana and Mississippi to Patoka, Illinois (a point about 200 miles south of Chicago) and a 200 mile, 26 inch connecting pipe line to Chicago ("Chicap"). In addition, various oil companies and others have announced plans to construct or expand product pipe lines from Texas and Louisiana Gulf Coast refineries to the Chicago and other midwest markets.

***Canadian and United States Oil Policies***

Deliveries through the System are subject to the national oil policies of Canada and the United States. The Canadian national oil policy has had the effect of reserving substantially all of the Ontario market to products manufactured from Canadian crude oil. The regulations implementing this policy were recently amended following a judgment of the Exchequer Court of Canada that such regulations were unconstitutional. The constitutionality of the amended regulations was subsequently upheld in a further judgment of the Exchequer Court of Canada. Leave to appeal this further judgment to the Supreme Court of Canada has been granted.

The United States import policy as promulgated by Presidential Proclamation No. 3279 dated March 10, 1959, as amended, in general limits total crude oil imports into specified districts in the United States east of the Rocky Mountains to approximately 12% of estimated production in such districts. As indicated in such Proclamation, this policy is based upon findings that adjustments in the imports of crude oil were necessary so that such imports would not threaten to impair the national security of the United States. Prior to March 10, 1970 overland imports from Canada and Mexico were exempt from the provisions of Presidential Proclamation No. 3279 but were nevertheless subject to voluntary restraints designed to hold such overland imports in line with orderly market growth. On March 10, 1970 the President issued a Proclamation amending Proclamation No. 3279 and specifically limiting the amount of crude and unfinished oils imported from Canada into Districts I to IV, east of the Rocky Mountains, to 395,000 average barrels daily during the period March 1, 1970 through December 31, 1970. On September 29, 1970 it was announced in Washington that action is being taken to exempt natural gas liquids imported from Canada from the 395,000 barrels per day limitation fixed by the Proclamation of March 10, 1970. It is expected that such action will have the effect of increasing imports into the said Districts I to IV by some 40,000 barrels per day. The Proclamation of March 10, 1970 and the earlier voluntary restraints program have had the effect of limiting the amount of Canadian crude oil which might otherwise have been delivered in the United States.

***Special Project***

Following the discovery of oil on the North Slope of Alaska and in the light of the promising prospects of significant oil accumulations in the Mackenzie River Delta, the Company in 1969 joined with others in the oil and pipe line industry to form Mackenzie Valley Pipe Line Research Limited. The purpose of

this company is to determine the technical and economic feasibility of constructing and operating a large diameter crude oil pipe line from the North Slope of Alaska to Edmonton. Extensive research studies have been undertaken and are continuing.

## Regulation

### *National Energy Board*

The Company operates the Canadian section of the System under the provisions of the National Energy Board Act which in effect means that it operates as a common carrier. By virtue of that Act the National Energy Board has regulatory authority over the location, construction and operation of pipe lines for the interprovincial and extraprovincial transportation of oil or gas, and over all matters relating to traffic, tolls or tariffs. The Board requires that all tariffs be filed with the Board and all such tariffs have been so filed. No hearings have been held to date for the purpose of considering the tariffs charged.

### *Interstate Commerce Commission of the United States*

Lakehead is an interstate common carrier within the meaning of the Interstate Commerce Act of the United States. Under that Act the Interstate Commerce Commission has regulatory authority over the rates, regulations and other practices of common carrier oil pipe lines. The Commission requires that all tariffs for deliveries to points in the United States be filed with the Commission and all such tariffs have been so filed.

### *Michigan Public Service Commission*

The Michigan Public Service Commission has jurisdiction over the location, construction and operation in Michigan of the pipe line of Lakehead and the issuance of securities by Lakehead.

### *United States Presidential Permits*

Lakehead has received all necessary permits from the President of the United States authorizing it to make and maintain its oil pipe line crossings of the international boundary between the United States and Canada. The permits recite that they may be terminated or amended by the President, and that they are subject to orders issued by United States Government agencies with respect to the oil transported by Lakehead's portion of the System.

### *United States Pipe Line Consent Judgment*

A consent judgment entered December 23, 1941, in a civil action entitled "United States of America, Plaintiff, vs. the Atlantic Refining Company, et al., Defendants" (Number 14060) in the United States District Court for the District of Columbia, by its terms bound, as defendants, most of the principal common carrier pipe line companies then operating in the United States and certain related companies. The judgment, in paragraph III, provides that "defendant common carrier" pipe lines (defined to include defendant pipe line companies and other pipe line companies then or thereafter having specified relationships to defendants) may not, subject to certain exceptions, pay or credit, directly or indirectly, to any "shipper-owner" (defined to include defendants and their subsidiaries and other controlled corporations) in any calendar year any earnings, dividends, sums of money, or other valuable considerations derived from transportation or other common carrier services which in the aggregate exceed such shipper-owner's share of 7% of the valuation (determined as specified) of the common carrier's pipeline property owned and used for common carrier purposes. The judgment contains provisions requiring the defendant common carrier pipe lines to retain net earnings derived from transportation or other common carrier services in excess of the amounts permitted to be credited or paid, with limitations on the use of such retained earnings. Such earnings may be used (1) for extending existing or constructing or acquiring new common carrier facilities (which may not thereafter be included as part of the valuation on which the 7% is calculated), (2) for maintaining normal and reasonable working capital requirements during the current calendar year, and (3) for retiring debt outstanding at the time the judgment was entered providing such debt or refunded debt was originally incurred for the purpose of, and the proceeds thereof expended in, constructing or acquiring common carrier property. The judgment permits the distribution of the retained portion of such earnings to stockholders of the corporation which owns and controls the common carrier pipe line in case of dissolution, sale, transfer or divorcement of the common carrier pipe line.

Certain companies directly or indirectly owning portions of the Company's outstanding stock are or may be defendants in the action or among the other companies falling within the scope of the judgment. By letter of February 24, 1953, the Company was advised that it was the view of the United States Department of Justice that payments from Lakehead to the Company are not subject to the limitations of paragraph III of the judgment. Lakehead has, however, in compliance with other provisions of the judgment, reported annually to the Attorney General of the United States the valuation used as an earnings base, the total earnings available for distribution to the Company, and the amounts paid or credited to the Company.

***Pending Legal Proceedings***

The State of Michigan has issued assessments and re-assessments against Lakehead for franchise taxes for the years 1957 through 1970. This tax, levied under Act 15 of Michigan Public Acts of 1921, as amended, purports to impose an annual fee upon all corporations for the privilege of doing business in Michigan. Michigan counsel for Lakehead, Messrs. Butzel, Eaman, Long, Gust and Kennedy of Detroit, has advised that assessments under this Act are unconstitutional when imposed upon corporations engaged solely in interstate and foreign commerce. Lakehead states that all of its business and operations in Michigan are solely in interstate and foreign commerce.

On December 30, 1969 Lakehead commenced an action in the Circuit Court for the County of Ingham, State of Michigan against the Michigan Department of Treasury and Allison Green, as State Treasurer, to set aside the assessments for the years 1957 through 1967 (the only years which had been assessed and re-assessed to that date) and for a declaration that such assessments are void and of no effect. The total amount involved in the assessments, re-assessments and interest for the period January 1, 1957 through September 30, 1970 (net after income tax) is $1,045,000 and Lakehead has made provision for this amount in its accounts. For the annual accruals of this amount see Note 10 of "Notes to Consolidated Financial Statements" on page 23.

## First Mortgage and Collateral Trust Bonds

The property of the Company now owned or hereafter acquired is and will be subject to the first fixed and specific mortgage, pledge and charge and the first floating charge of the Deed of Mortgage and Trust dated as of October 1, 1949 as supplemented and amended (the "bond trust deed") securing the outstanding first mortgage and collateral trust bonds of the Company. No additional bonds may be issued under the bond trust deed. The Company has pledged with the trustee under the bond trust deed all of the issued first mortgage pipe line bonds of Lakehead. Lakehead's bonds are secured by fixed charges on the property of Lakehead substantially similar to the fixed charges securing the first mortgage and collateral trust bonds of the Company. No additional bonds may be issued by Lakehead.

## Details of the Offering

The following is a brief summary of the material attributes and characteristics of the 9⅜% Sinking Fund Debentures, Series B (the "Series B Debentures") offered by this prospectus. This summary does not purport to be complete and is qualified in its entirety by reference to the Trust Indenture referred to below.

***Payment and Denominations***

The principal of and half-yearly interest (June 1 and December 1) and redemption premium, if any, on the Series B Debentures will be payable in lawful money of Canada at any branch in Canada of the Company's bankers at the holder's option. Series B Debentures in definitive form are expected to be available for delivery on or about December 8, 1970 as coupon debentures registrable as to principal only in the denomination of $1,000 and as fully registered debentures in denominations of $1,000 and authorized multiples thereof.

***Indenture***

The Series B Debentures will be issued pursuant to the provisions of a trust indenture made as of October 1, 1966 between the Company and Montreal Trust Company, as Trustee, and a supplemental

indenture to be made as of December 1, 1970. Such trust indenture and supplemental indenture are herein referred to as the "Trust Indenture". The Series B Debentures will, in the opinion of counsel, be direct obligations of the Company but will not be secured by any mortgage, pledge or other charge. The Series B Debentures will rank equally (except as to sinking funds pertaining exclusively to any particular series of debentures) with the outstanding 6% Sinking Fund Debentures, Series A due November 1, 1986, and all additional debentures to be issued and outstanding from time to time under the Trust Indenture.

*Certain Provisions of the Trust Indenture*

The Trust Indenture will contain provisions permitting the issuance from time to time of additional debentures thereunder without limitation as to aggregate principal amount.

In addition to other covenants, the Trust Indenture will contain covenants of the Company substantially to the effect that:

(1) so long as any of the Series B Debentures are outstanding, the Company will not, and will not permit any Subsidiary to, issue or become liable (other than to the Company or a Wholly-owned Subsidiary) on any additional debentures or any other Funded Obligations, as the case may be, unless, after giving effect thereto:

(i) the average annual Consolidated Net Earnings of the Company and its Subsidiaries for the two fiscal years immediately preceding the date of such issue or immediately preceding the Company or a Subsidiary so becoming liable, as the case may be, shall have been at least equal to twice the aggregate annual interest requirements on all Consolidated Funded Obligations of the Company and its Subsidiaries; and

(ii) the aggregate principal amount of Consolidated Funded Obligations of the Company and its Subsidiaries does not exceed 75% of the Total Consolidated Capitalization of the Company and its Subsidiaries; and

(2) the Company will not create, assume or suffer to exist any mortgage, lien or other encumbrance on any of its assets to secure any bonds, debentures or other obligations (other than the presently outstanding first mortgage and collateral trust bonds) unless at the same time it shall secure equally and rateably therewith all of the debentures then outstanding under the Trust Indenture, and the Company will not permit any Subsidiary to create, assume or suffer to exist any mortgage, lien or other encumbrance on any of the assets of such Subsidiary to secure any bonds, debentures or other obligations (other than Lakehead's first mortgage pipe line bonds) unless at the same time such Subsidiary shall secure equally and rateably therewith all Funded Obligations of such Subsidiary then outstanding and unless such Subsidiary has unsecured Funded Obligations then outstanding; provided that this covenant will not apply to nor operate to prevent, among other things, any security (except on fixed assets) given in the ordinary course of business to any bank or banks or others to secure any Indebtedness payable on demand or maturing within 18 months of the date such Indebtedness is incurred or of the date of any renewal or extension thereof, or the giving or assumption of any Purchase Money Mortgage.

*Sinking Funds*

The Company will covenant to establish a mandatory sinking fund to provide for the retirement of 60% of the principal amount of Series B Debentures prior to maturity. Such sinking fund will provide for the retirement of $2,400,000 principal amount of the Series B Debentures on December 1 in each of the years 1975 to 1989 inclusive.

In addition to the above-mentioned mandatory sinking fund retirements, the Company will have the right to make payments, by way of a non-cumulative optional sinking fund, sufficient to retire on any sinking fund payment date up to $600,000 principal amount of the Series B Debentures in each of the years 1980 to 1989 inclusive.

The Series B Debentures will be redeemable for mandatory or optional sinking fund purposes at the principal amount thereof plus accrued interest to the date fixed for redemption.

The Company is to be entitled to purchase Series B Debentures in the market or by tender or by private contract at prices not exceeding the redemption price current at the time of purchase in respect of Series B Debentures redeemed otherwise than out of sinking fund moneys, plus accrued interest and costs of purchase. All Series B Debentures purchased or redeemed (except Series B Debentures purchased or redeemed out of sinking fund moneys) shall, notwithstanding the cancellation thereof, be available to the Company as a sinking fund credit which at the election of the Company may be applied as a sinking fund credit at the principal amount thereof (to the extent not theretofore applied) in satisfaction in whole or in part of mandatory sinking fund payments payable thereafter.

### *Redemption*

The Series B Debentures will not be redeemable prior to December 1, 1985, for other than sinking fund purposes, unless the Company shall have filed with the Trustee a certified copy of a resolution of its Directors declaring that such Series B Debentures are being redeemed otherwise than as a part of a refunding or anticipated refunding operation involving the application, directly or indirectly, of funds borrowed in connection with or in anticipation of such refunding operation having an interest rate or cost to the Company of less than 9⅜% per annum. Subject to the foregoing, the Series B Debentures are to be redeemable, at the option of the Company, otherwise than out of sinking fund moneys, at any time in whole or from time to time in part, on not less than 30 days' notice, at prices equal to the following percentages of the principal amount thereof, together in each case with accrued interest to the date specified for redemption:

| If redeemed in the 12 months ending December 1 | Percentage | If redeemed in the 12 months ending December 1 | Percentage | If redeemed in the 12 months ending December 1 | Percentage |
|---|---|---|---|---|---|
| 1971 | 109.375 | 1978 | 105.75 | 1985 | 102.25 |
| 1972 | 108.75 | 1979 | 105.25 | 1986 | 101.75 |
| 1973 | 108.25 | 1980 | 104.75 | 1987 | 101.25 |
| 1974 | 107.75 | 1981 | 104.25 | 1988 | 100.75 |
| 1975 | 107.25 | 1982 | 103.75 | 1989 | 100.00 |
| 1976 | 106.75 | 1983 | 103.25 | 1990 | 100.00 |
| 1977 | 106.25 | 1984 | 102.75 | | |

The Trust Indenture will provide that Series B Debentures redeemed or purchased are to be cancelled and not reissued.

### *Modification*

The rights of a debenture holder under the Trust Indenture may be modified if authorized by an extraordinary resolution. The term "extraordinary resolution" will be defined in the Trust Indenture to mean, in effect, a resolution passed by the affirmative vote of the holders of 75% in principal amount of the debentures represented and voting at a meeting of debenture holders or an instrument or instruments in writing signed by the holders of 75% in principal amount of the debentures. In certain cases, the modification requires separate assent by the holders of 75% in principal amount of debentures of a particular series.

### *Definitions*

The Trust Indenture will contain various definitions, including definitions to the following effect:

"Consolidated Net Earnings" for any specified period means the aggregate excess, during such specified period, of (i) the gross earnings of the Company and its Subsidiaries and dividends (other than stock dividends) received from other corporations, interest, revenues and other income derived from all sources (exclusive of gains on the disposal of fixed assets, investments (except any investment which is disposed of not more than 18 months after the acquisition thereof) and other similar items to the extent the aggregate consolidated gains exceed $100,000)—over (ii) all administration, selling and other operating expenses of every character (exclusive of losses on the disposal of fixed assets, investments (except any investment which is disposed of not more than 18 months after the acquisition thereof) and other

similar items to the extent the aggregate consolidated losses exceed $100,000, and exclusive of amortization of debt premium, discount and expense), including, but without limiting the generality of the foregoing, insurance premiums, interest (other than interest on Funded Obligations) rentals, fees, reasonable allowance for depreciation and/or obsolescence, taxes (other than income and profits taxes) and reasonable provision for bad and doubtful debts; all as computed on a consolidated basis in accordance with generally accepted accounting practice and reported upon by the auditors of the Company without, in their opinion, material adverse qualification; provided that no deduction shall be made for minority interests;

"Funded Obligations" means all Indebtedness, including Purchase Money Mortgages, created, assumed or guaranteed which matures by its terms on, or is renewable at the option of the obligor to, a date more than 18 months after the date of the original creation, assumption or guarantee thereof;

"Indebtedness" means and includes all items of indebtedness which in accordance with generally accepted accounting practice would be included in determining total liabilities as shown on the liability side of a balance sheet as at the date as of which Indebtedness is to be determined, but in any event including, without limitation, (1) obligations secured by any mortgage, hypothec, pledge or lien existing on property owned subject to such mortgage, hypothec, pledge or lien, whether or not the obligations secured thereby shall have been assumed, and (2) guarantees, endorsements (other than endorsements for collection in the ordinary course of business) and other contingent obligations in respect of, or any obligations to purchase or otherwise acquire or service, obligations of others, but not including the amount of any provision for deferred taxes on income;

"Purchase Money Mortgage" means any mortgage, lien or other encumbrance created to secure, or assumed as, all or any part of the purchase price of property acquired by the Company or a Subsidiary subsequent to October 1, 1966 and any extensions, renewals or refundings of any such mortgage, lien or encumbrance upon the same property, provided that the principal amount of the Indebtedness secured thereby outstanding at the date of such extension, renewal or refunding is not increased;

"Subsidiary" means any corporation of which there is owned, directly or indirectly, by or for the Company and/or by or for any corporation in like relation to the Company, Voting Shares which, in the aggregate, entitle the holders thereof to cast more than 50% of the votes which may be cast by the holders of all the outstanding Voting Shares of such first mentioned corporation for the election of its directors and includes any corporation in like relation to a Subsidiary;

"Total Consolidated Capitalization" of the Company and its Subsidiaries means, without duplication, the sum of (i) the principal amount of all Consolidated Funded Obligations of the Company and its Subsidiaries at the time outstanding, and (ii) the total capital represented by the capital stock of the Company at the time outstanding, based, in the case of shares having a par value, upon their par value, and, in the case of shares of no par value, upon the value stated on the books of the Company, plus the total amount of (or less the amount of any net deficits in) the contributed or capital surplus and retained earnings of the Company and its Subsidiaries and the amount of any provision for deferred taxes on income as shown on a consolidated balance sheet of the Company and its Subsidiaries prepared on a consolidated basis, in accordance with generally accepted accounting practice after adding back the amount shown on the consolidated balance sheet of the Company and its Subsidiaries for minority interests applicable to Subsidiaries and eliminating all intercorporate items, and plus the amount of any premium on capital stock of the Company not included in its surplus, and less the amount, if any, by which the capital account of the Company or the consolidated surplus account of the Company and its Subsidiaries has at any time been increased as a result of a restatement of the amount at which any assets of the Company or a Subsidiary are recorded on its books. The amount of Total Consolidated Capitalization of the Company and its Subsidiaries at any time shall be ascertained in Canadian dollars.

## Plan of Distribution

Under an agreement dated November 12, 1970 between the Company and Wood Gundy Securities Limited and McLeod, Young, Weir & Company Limited (the "Underwriters"), the Company has agreed to sell and the Underwriters have jointly and severally agreed to purchase on December 8, 1970 subject to

ALBERTA
REDWATER
EDMONTON
STROME
HARDISTY
METISKOW
KERROBERT
SASKATCHEWAN
MILDEN
LOREBURN
CRAIK
REGINA
GLENAVON
CROMER
SOURIS
GLENBORO
MANITOU
GRETNA
MANITOBA
DONALDSON
VIKING
PLUMMER
CLEARBROOK
DEER RIVER
NORTH DAKOTA
MINNESO
INTERPROVINCIAL PIPE LINE COMPANY
And its United States Subsidiary
LAKEHEAD PIPE LINE COMPANY, INC.
Legend
SIZE IN INCHES
LENGTH IN MILES
12 92
16 428
18 363
20 678
24 772
26 326
30 933
34 1,564
5,156
PUMPING STATIONS

ONTARIO
QUEBEC
SAXON
RAPID RIVER
GOULD CITY
MACKINAW
INO
GOGEBIC
IRON RIVER
MANISTIQUE
INDIAN RIVER
SHELDON
LEWISTON
WISCONSIN
WEST BRANCH
ADAMS
BAY CITY
WESTOVER
PORT CREDIT
SMITHVILLE
WOLVERTON
TONAWANDA
KEYSER
BUFFALO
NORTH BRANCH
NEW YORK
MICHIGAN
SARNIA
BRYANSTON
WALWORTH
DETROIT
MARSHALL
WARREN
CHICAGO
NILES
Buckeye
TOLEDO
Tecumseh
GRIFFITH
CYGNET
PENNSYLVANIA
ILLINOIS
INDIANA
OHIO

the terms and conditions stated therein, all but not part of the $60,000,000 aggregate principal amount of Series B Debentures offered by this prospectus at a price equal to 98.55% of the principal amount thereof plus accrued interest from December 1, 1970 to the date of delivery, payable in cash to the Company against delivery of such Debentures. The obligations of the Underwriters under such agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events.

## Interest Requirements

The maximum annual interest requirements of the consolidated long term debt of the Company and subsidiary companies to be outstanding after giving effect to the present financing will amount to $21,510,000 per annum, which requirements will decrease as sinking funds operate and as long term debt matures. Consolidated earnings, after provision for depreciation and amortization but before interest and discount on long term debt and provision for income taxes, for the year ended December 31, 1969 amounted to $65,157,000 and for the five years and nine months ended September 30, 1970 averaged $59,529,000 per annum, being approximately 3.0 times and 2.8 times, respectively, the said maximum annual interest requirements.

## Asset Coverage

The consolidated net tangible assets of the Company and its subsidiary companies as at September 30, 1970 as shown by the accompanying unaudited balance sheet and after giving effect to the issuance of the Series B Debentures and the prepayment of the bank loan due July 1, 1971 are estimated to be as follows:

| | | |
|---|---|---|
| Investment in pipe line transportation system, at cost | | $598,754,000 |
| Less—accumulated depreciation | | 164,743,000 |
| Net investment in pipe line transportation system | | 434,011,000 |
| Current assets | | 22,894,000 |
| | | 456,905,000 |
| Less—current liabilities (excluding current maturities on long term debt) | | 20,047,000 |
| | | 436,858,000 |
| Estimated net proceeds from sale of Series B Debentures (this issue) | $59,030,000 | |
| Less—prepayment of bank loan due July 1, 1971 | 20,000,000 | 39,030,000 |
| Consolidated net tangible assets | | $475,888,000 |

NOTE: Deferred income taxes and deferred investment tax credits in the amounts of $47,098,000 and $9,579,000 respectively reflected in the consolidated balance sheet at September 30, 1970 have not been deducted in arriving at consolidated net tangible assets.

These consolidated net tangible assets of $475,888,000 are equivalent to $1,551 for each $1,000 of the $306,892,000 principal amount of consolidated long term debt of the Company and its subsidiary companies to be outstanding as at September 30, 1970 after giving effect to the issue of the Series B Debentures and the prepayment of the bank loan due July 1, 1971.

## Directors and Officers

The names, principal occupations and home addresses of the officers and directors of the Company are:

***Directors***

| | | |
|---|---|---|
| JOHN FRANK BOOKOUT | President and Director, Shell Canada Limited | 1 Benvenuto Place Toronto 190, Ontario |
| JERRY ALBERT COGAN | Senior Vice-President and Director, Imperial Oil Limited | 90 Cortleigh Boulevard Toronto 310, Ontario |
| JOHN WILLIAMSON HAMILTON, Q.C. | Vice-President and Director Imperial Oil Limited | 68 Highland Crescent Willowdale 431, Ontario |

*Directors*

| | | |
|---|---|---|
| JAMES GEORGE LIVINGSTONE | Vice-President and Director Imperial Oil Limited | 280 Lytton Boulevard Toronto 305, Ontario |
| JOHN WILLIS MORGAN | Vice-President, Gulf Oil Canada Limited | 10 Benvenuto Place Toronto 190, Ontario |
| RALPH DOUGLAS PARKER | Consultant, former Senior Vice-President and Director The International Nickel Company of Canada, Limited | East Penthouse The Colonnade 131 Bloor Street West Toronto 181, Ontario |
| WILLIAM HAROLD REA | Chairman of the Board Great Canadian Oil Sands Limited | 27 Blyth Hill Road Toronto 315, Ontario |
| ROBERT HALEY REID | President and Managing Director, London Life Insurance Company | 837 Talbot Street London, Ontario |
| DAVID GEORGE WALDON | President, Interprovincial Pipe Line Company | 300 Oriole Parkway Toronto 197, Ontario |
| WILLIAM PRICE WILDER | President and Director Wood Gundy Securities Limited | 179 Warren Road Toronto 195, Ontario |
| GORDON DORWARD DESALABERRY WOTHERSPOON, Q.C. | Executive Vice-President and Director, Eaton's of Canada Limited | 5 Whitney Avenue Toronto 287, Ontario |

During the last five years all the directors have been employed in various capacities by the companies, including their affiliates, indicated opposite their names. Mr. Wilder is president, a director and shareholder of Wood Gundy Securities Limited, which is a party to the underwriting agreement referred to under "Plan of Distribution" on page 13.

*Officers*

| | | |
|---|---|---|
| DAVID GEORGE WALDON | President | 300 Oriole Parkway Toronto 197, Ontario |
| JOHN WILLIAMSON HAMILTON, Q.C. | Vice-President | 68 Highland Crescent Willowdale 431, Ontario |
| ROBERT KNEELAND HEULE | Vice-President and General Manager | 9028-138 Street Edmonton 51, Alberta |
| JOHN BLIGHT | Secretary-Treasurer | 199 Burbank Drive Willowdale 432, Ontario |
| ROBERT BURDETTE BURGESS, Q.C. | General Counsel | 74 Rykert Crescent Toronto 350, Ontario |
| FREDERICK BARR NEWTON | Assistant Treasurer | 18 Orkney Crescent Islington 676, Ontario |
| EDWARD GORDON SHEASBY | Assistant General Counsel and Assistant Secretary | 3708 Beachollow Crescent Mississauga, Ontario |

During the last five years all the officers have been employed in various capacities by the Company or subsidiaries with the exception of Mr. Hamilton and Mr. Sheasby. Mr. Hamilton receives no remu-

neration for the office of Vice-President of the Company and during this period has been employed by Imperial Oil Limited. Prior to November 1966, Mr. Sheasby was employed by Trans Mountain Oil Pipe Line Company.

### Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to directors and senior officers of the Company during the fiscal year completed December 31, 1969, was $178,892 and for the nine months ended September 30, 1970 was $142,437.

The aggregate of all remuneration payments (other than those reported in the preceding paragraph) made by the Company and its subsidiaries to directors and senior officers during the fiscal year completed December 31, 1969, was $7,290 and for the nine months ended September 30, 1970, was $5,784. Such payments consisted solely of contributions under the Employees' Savings Plan. It cannot be stated as a specific amount what payments are proposed to be made in the future. Under the terms of the Plan, a regular full-time employee, participating in the Company's Retirement Plan, may allocate up to 5% of his monthly salary to a fund, dependent on his length of service with the Company, and the Company agrees to contribute to the fund an amount equal to the employee's allocation.

The estimated aggregate cost to the Company and its subsidiaries in 1969 of all pension benefits proposed to be paid directly or indirectly by the Company or any of its subsidiaries to directors and senior officers of the Company under its existing pension plan in the event of retirement at normal retirement age was $17,775.

### Options to Purchase Shares

Under the Company's Employee Incentive Stock Option Plan, 250,000 authorized shares of the capital stock of the Company have been reserved for issuance upon the exercise of stock options which may be granted to full-time key employees of the Company and its subsidiaries at a price not less than 90% of the closing market quotation of the Company's shares on the day an option is granted. Options may be granted for a term not exceeding ten years and are exercisable only after one year of continuous employment from the date of grant. During the period January 1 to September 30, 1970 options on 1,500 shares were exercised for a cash consideration of $25,500. At September 30, 1970 there were outstanding options on 143,000 shares as follows:

| Full-time senior officers of the Company and subsidiaries | All other employees of the Company and subsidiaries | Exercise price per share | Market value per share at date of grant (1) | Normal expiry date |
|---|---|---|---|---|
| 29,000 | 64,000 | $17.00 | $18.875 | April 8, 1979 |
| 10,500 | 39,500 | 20.50 | 22.625 | April 7, 1980 |

(1) On September 30, 1970 the market value per share on The Toronto Stock Exchange was $24.625.

### Certain Holders of Securities

As at September 30, 1970 Imperial Oil Limited, a subsidiary of Standard Oil Company (New Jersey), owned of record and beneficially 8,400,000 shares (approximately 33%) of the outstanding capital stock of the Company.

As at September 30, 1970 the directors and senior officers of the Company, as a group, beneficially owned directly or indirectly approximately 0.1% of the outstanding capital stock of the Company.

As at September 30, 1970 certain of the partners of Messrs. Osler, Hoskin & Harcourt, counsel for the Company, owned $8,000 principal amount of 6% Sinking Fund Debentures, Series A of the Company, warrants to purchase 50 shares of the capital stock of the Company and 1,663 shares of the capital stock of the Company; and a partner of Messrs. Borden, Elliot, Kelley & Palmer, counsel for the Underwriters, owned 100 shares of the capital stock of the Company.

## Dividend Record

The Company has paid dividends on its outstanding shares in respect of its last five fiscal years and the nine month period ended September 30, 1970 as follows:

| | 1965 | 1966 | 1967 | 1968 | 1969 | Nine months 1970 |
|---|---|---|---|---|---|---|
| Per share*.................. | $0.69 | $0.72 | $0.72 | $0.72 | $0.72 | $0.60 |
| Total amount (in thousands).. | $17,551 | $18,314 | $18,315 | $18,316 | $18,316 | $15,264 |

*Adjusted to reflect a 5-for-1 subdivision of capital stock effective May 8, 1967.

## Material Contracts

The only material contract entered into by the Company within the two years preceding the date hereof, other than contracts in the ordinary course of business, is the underwriting agreement dated November 12, 1970, between the Company and the Underwriters referred to under "Plan of Distribution" on page 13.

Copies of the contract referred to above and of the supplemental indenture to be made as of December 1, 1970, when executed, may be inspected at the head office of the Company at 10015 - 103 Avenue, Edmonton, Alberta and the executive office of the Company at 7 King Street East, Toronto, Ontario during ordinary business hours at any time during the period of primary distribution to the public of the securities offered by this prospectus and for a period of 30 days thereafter.

## Auditors, Transfer Agents and Registrars

The auditors of the Company are Price Waterhouse & Co., 900 Royal Bank Building, 10117 Jasper Ave., Edmonton, Alberta.

The Royal Trust Company at its principal offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Edmonton and Vancouver, and Chemical Bank at its principal office in the City of New York, U.S.A. are the transfer agents for the shares of the Company. Montreal Trust Company at its principal offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Edmonton and Vancouver and Bank of Montreal Trust Company, City of New York, U.S.A. are registrars for the shares of the Company.

Bank of Montreal Trust Company is the registrar for the Company's first mortgage and collateral trust bonds series C and D and The Royal Trust Company is the registrar for the Company's first mortgage and collateral trust bonds series E.

Montreal Trust Company is the registrar for the Company's debentures and registers for the transfer of the Series B Debentures will be kept at the principal offices of Montreal Trust Company in Montreal, Toronto, Winnipeg, Edmonton and Vancouver.

## Interprovincial Pipe Line Company
### and Subsidiary Companies

## Consolidated Balance Sheets
(in thousands of dollars)

| | December 31, 1969 | September 30, 1970 (unaudited) |
|---|---|---|
| **Assets** | | |
| CURRENT ASSETS: | | |
| Cash | $ 2,370 | $ 1,551 |
| Term deposits with Canadian chartered banks | 2,415 | 3,455 |
| Short term investments, at cost which is equivalent to market | 3,304 | 5,534 |
| Accounts receivable— | | |
| Transportation charges | 8,439 | 7,956 |
| Income tax recoverable (Note 5) | 1,189 | — |
| Other | 1,369 | 228 |
| Deposit for bond interest due October 1, 1970 | — | 948 |
| Inventory of materials and supplies, at cost | 2,185 | 2,411 |
| Prepaid expenses | 565 | 811 |
| Total Current Assets | 21,836 | 22,894 |
| OTHER ASSETS AND DEFERRED CHARGES: | | |
| Unamortized discount and expense on long term debt | 2,540 | 2,426 |
| Other | 635 | 550 |
| | 3,175 | 2,976 |
| PIPE LINE TRANSPORTATION SYSTEM, at cost (Note 2) | 587,340 | 598,754 |
| Less—Accumulated depreciation | 152,015 | 164,743 |
| | 435,325 | 434,011 |
| | $460,336 | $459,881 |
| **Liabilities** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 5,895 | $ 3,490 |
| Interest accrued | 3,614 | 5,130 |
| Income and other taxes | 7,791 | 11,427 |
| Long term debt due within one year (Note 3) | 15,026 | 17,549 |
| Total Current Liabilities | 32,326 | 37,596 |
| LONG TERM DEBT (Note 3) | 265,184 | 249,119 |
| DEFERRED INCOME TAXES (Note 4) | 42,457 | 47,098 |
| DEFERRED INVESTMENT TAX CREDIT (Note 5) | 10,257 | 9,579 |
| SHAREHOLDERS' EQUITY: | | |
| Capital stock (Note 6) | | |
| Authorized—$100,000,000 divided into 100,000,000 shares, par value $1 each | | |
| Issued —December 31, 1969—25,438,960 | 25,439 | — |
| —September 30, 1970—25,440,460 | — | 25,441 |
| Contributed surplus—premium on shares (Notes 6 and 7) | 20,076 | 20,100 |
| Retained earnings | 64,597 | 70,948 |
| Total Shareholders' Equity | 110,112 | 116,489 |
| | $460,336 | $459,881 |

Approved on behalf of the Board:

(Signed) D. G. WALDON, Director (Signed) W. H. REA, Director

*The accompanying notes are part of the financial statements.*

## Interprovincial Pipe Line Company
### and Subsidiary Companies

## Consolidated Statements of Earnings
(in thousands of dollars)

| | Year ended December 31 | | | | | Nine months ended September 30 | |
|---|---|---|---|---|---|---|---|
| | 1965 | 1966 | 1967 | 1968 | 1969 | 1969 | 1970 |
| INCOME: | | | | | | (unaudited) | (unaudited) |
| Transportation revenue | $79,718 | $87,787 | $92,893 | $105,532 | $114,465 | $84,102 | $97,832 |
| Other income | 574 | 1,219 | 1,548 | 1,049 | 994 | 814 | 1,158 |
| | 80,292 | 89,006 | 94,441 | 106,581 | 115,459 | 84,916 | 98,990 |
| EXPENSES: | | | | | | | |
| Operating and administrative | 15,833 | 19,217 | 22,384 | 25,665 | 25,404 | 18,209 | 19,701 |
| Taxes, other than income taxes | 4,098 | 4,292 | 4,636 | 5,789 | 8,338 | 6,159 | 7,468 |
| Provision for depreciation (Note 2) | 10,432 | 10,760 | 11,464 | 13,132 | 15,525 | 11,526 | 13,025 |
| Interest on long term debt (Note 2) | 4,006 | 4,274 | 5,641 | 8,608 | 13,898 | 10,182 | 14,150 |
| Loss (gain) on foreign exchange (Note 1) | 430 | 470 | 375 | 131 | 490 | 625 | (477) |
| Amortization of facilities to be retired (Note 2) | — | 1,586 | 1,219 | 545 | 545 | 409 | — |
| | 34,799 | 40,599 | 45,719 | 53,870 | 64,200 | 47,110 | 53,867 |
| EARNINGS BEFORE INCOME TAXES | 45,493 | 48,407 | 48,722 | 52,711 | 51,259 | 37,806 | 45,123 |
| PROVISION FOR INCOME TAXES: | | | | | | | |
| Current | 23,394 | 25,590 | 22,469 | 20,767 | 18,342 | 14,609 | 19,614 |
| Deferred (Note 4) | 1,642 | 418 | 2,478 | 4,706 | 7,883 | 5,771 | 4,641 |
| Deferred investment tax credit, net (Note 5) | 121 | (124) | 1,250 | 3,904 | 608 | (613) | (747) |
| | 25,157 | 25,884 | 26,197 | 29,377 | 26,833 | 19,767 | 23,508 |
| EARNINGS FOR THE PERIOD | $20,336 | $22,523 | $22,525 | $23,334 | $24,426 | $18,039 | $21,615 |

## Consolidated Statements of Retained Earnings
(in thousands of dollars)

| | Year ended December 31 | | | | | Nine months ended September 30 | |
|---|---|---|---|---|---|---|---|
| | 1965 | 1966 | 1967 | 1968 | 1969 | 1969 | 1970 |
| | | | | | | (unaudited) | (unaudited) |
| BALANCE AT BEGINNING OF PERIOD | $42,265 | $45,050 | $49,259 | $53,469 | $58,487 | $58,487 | $64,597 |
| Earnings for the period | 20,336 | 22,523 | 22,525 | 23,334 | 24,426 | 18,039 | 21,615 |
| | 62,601 | 67,573 | 71,784 | 76,803 | 82,913 | 76,526 | 86,212 |
| Dividends paid | 17,551 | 18,314 | 18,315 | 18,316 | 18,316 | 13,737 | 15,264 |
| BALANCE AT END OF PERIOD | $45,050 | $49,259 | $53,469 | $58,487 | $64,597 | $62,789 | $70,948 |

*The accompanying notes are part of the financial statements.*

## Interprovincial Pipe Line Company
### and Subsidiary Companies

## Consolidated Statements of Source and Application of Funds
(in thousands of dollars)

| | Year ended December 31 | | | | | Nine months ended September 30 | |
|---|---|---|---|---|---|---|---|
| | 1965 | 1966 | 1967 | 1968 | 1969 | 1969 (unaudited) | 1970 (unaudited) |
| FUNDS WERE PROVIDED FROM THE FOLLOWING SOURCES: | | | | | | | |
| Earnings for the period | $20,336 | $22,523 | $22,525 | $23,334 | $24,426 | $18,039 | $21,615 |
| Add: Non-cash charges and (credits) to earnings | | | | | | | |
| Depreciation and amortization (Note 2) | 10,432 | 12,346 | 12,683 | 13,677 | 16,070 | 11,935 | 13,025 |
| Deferred income taxes (Note 4) | 1,642 | 418 | 2,478 | 4,706 | 7,883 | 5,771 | 4,641 |
| Deferred investment tax credit, net (Note 5) | 121 | (124) | 1,250 | 3,904 | 608 | (613) | (747) |
| Other | 117 | 115 | 117 | 243 | 150 | 110 | 114 |
| Funds provided from operations | 32,648 | 35,278 | 39,053 | 45,864 | 49,137 | 35,242 | 38,648 |
| Long term debt issued (Note 3): | | | | | | | |
| Interprovincial Pipe Line Company: | | | | | | | |
| 5½% First Mortgage and Collateral Trust Bonds, Series E | 12,000 | — | — | — | — | — | — |
| 6% Sinking Fund Debentures, Series A | — | 35,000 | — | — | — | — | — |
| Bank Loans | — | — | — | 11,200 | 18,800 | 11,100 | 15,000 |
| Lakehead Pipe Line Company, Inc.: | | | | | | | |
| 6½% Sinking Fund Debentures, Series A | — | — | 32,298 | — | — | — | — |
| 7⅛% Sinking Fund Debentures, Series B | — | — | — | 80,755 | — | — | — |
| Bank Loan | — | — | — | — | 37,731 | 29,322 | — |
| Capital stock issued (Note 6) | — | — | 37 | 5 | 2 | 2 | 26 |
| Income tax recoverable (Note 5) | — | — | — | 1,765 | 1,189 | — | — |
| Other transactions, net | 128 | (669) | (266) | 207 | 501 | 342 | 365 |
| | 44,776 | 69,609 | 71,122 | 139,796 | 107,360 | 76,008 | 54,039 |
| FUNDS WERE EXPENDED FOR THE FOLLOWING: | | | | | | | |
| Dividends paid | 17,551 | 18,314 | 18,315 | 18,316 | 18,316 | 13,737 | 15,264 |
| Long term debt retired or included in current liabilities | 9,329 | 9,576 | 10,194 | 9,676 | 14,817 | 6,527 | 31,064 |
| Additions to pipe line transportation system | 11,172 | 4,513 | 76,721 | 114,189 | 70,595 | 58,919 | 11,923 |
| Cost of issuing long term debt | 118 | 620 | 578 | 1,460 | — | — | — |
| | 38,170 | 33,023 | 105,808 | 143,641 | 103,728 | 79,183 | 58,251 |
| INCREASE (DECREASE) IN WORKING CAPITAL | 6,606 | 36,586 | (34,686) | (3,845) | 3,632 | (3,175) | (4,212) |
| WORKING CAPITAL (DEFICIT) AT BEGINNING OF PERIOD | (18,783) | (12,177) | 24,409 | (10,277) | (14,122) | (14,122) | (10,490) |
| WORKING CAPITAL (DEFICIT) AT END OF PERIOD | $(12,177) | $24,409 | $(10,277) | $(14,122) | $(10,490) | $(17,297) | $(14,702) |

*The accompanying notes are part of the financial statements.*

## Interprovincial Pipe Line Company
### and Subsidiary Companies

## Notes to Consolidated Financial Statements

**(Amounts as at September 30, 1970 and for the nine months ended September 30, 1969 and September 30, 1970 are unaudited)**

1. Principles of Consolidation:

The consolidated financial statements include the accounts of Interprovincial Pipe Line Company and its wholly owned subsidiaries. These are Interprovincial Pipe Line Patrol Company Limited in Canada and Lakehead Pipe Line Company, Inc. and its subsidiary, Pipe Line Service Company, Inc. in the United States.

United States dollar amounts (other than "Originally Issued" long term debt shown in Note 3) have been translated into Canadian dollars on the following bases:

Current assets and liabilities—at the rates of exchange at December 31, 1969 and September 30, 1970;

Other assets and liabilities—at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net losses or gains arising from the foregoing methods are shown on the Consolidated Statements of Earnings as Loss (gain) on foreign exchange. The gain on foreign exchange for the nine months ended September 30, 1970 includes a non-recurring gain of approximately $500,000 as of June 1, 1970 arising from the unpegging of the Canadian dollar on that date.

2. Pipe Line Transportation System:

Provision for Depreciation:

Amortization of facilities to be retired:

The pipe line transportation system and accumulated depreciation by major classes at December 31, 1969 and September 30, 1970 are as follows:

| | December 31, 1969 | | September 30, 1970 | |
|---|---|---|---|---|
| | Investment, at cost | Accumulated depreciation | Investment, at cost | Accumulated depreciation |
| | | (in thousands of dollars) | | |
| Land | $ 1,371 | $ — | $ 1,765 | $ — |
| Rights-of-way | 12,760 | 1,869 | 12,789 | 2,144 |
| Pipe line | 453,000 | 114,506 | 453,178 | 123,916 |
| Pumping equipment, buildings and tanks | 115,890 | 35,640 | 116,432 | 38,683 |
| Construction in progress | 4,319 | — | 14,590 | — |
| | $587,340 | $152,015 | $598,754 | $164,743 |

Consolidated capital expenditures for 1971 are currently estimated at $59 million and will be financed, in part, from the proceeds of the issue of $60 million of Series B Debentures of Interprovincial (Note 12) and funds generated within the companies.

The companies' policy is to provide for depreciation of fixed assets on the straight line method, at annual rates which will amortize the cost of depreciable properties over their estimated service lives, after taking into account possible salvage values. As the result of studies of the service lives and salvage values of various components of the pipe line system the companies, with the approval of the regulatory authorities, adjusted their depreciation rates, effective July 1, 1968 for Lakehead and January 1, 1969 for Interprovincial. Thus the average annual depreciation rate for the pipe line transportation system was reduced from 3.3% to 3.2% in 1968 and to 3.0% in 1969 and the nine months ended September 30, 1970. These changes had no significant effect on earnings.

It is the companies' policy to capitalize interest during the construction period on funds borrowed specifically for additions to the pipe line transportation system. This amounted to $128,000 in 1965, $984,000 in 1967, $2,478,000 in 1968, $2,220,000 in 1969 and $1,324,000 for the nine months ended September 30, 1969. No interest was capitalized in 1966 or for the nine months ended September 30, 1970.

In the interests of operating efficiency and reduced costs, the diesel pumping equipment located at three pumping stations in Manitoba was replaced with remotely controlled electrical pumping units. As a result of this modernization program, which was initiated in 1966, certain fixed assets became surplus to requirements and were retired in 1967. Normal depreciation on the same basis as in prior years was provided on such assets until they were retired from service and if no other action had been taken they would have had a net book value at the time of retirement of $2,805,000. In order that these assets would be fully written off when they were retired, Interprovincial provided for amortization of the remaining costs by additional charges to earnings of $1,586,000 in 1966 and $1,219,000 in 1967 and these amounts are shown on the Consolidated Statements of Earnings as Amortization of facilities to be retired.

Certain temporary pumping facilities constructed in 1967 on the 30 inch pipe line between Superior, Wisconsin and Port Huron, Michigan became surplus to requirements early in 1970. Installation costs associated with these temporary facilities amounted to approximately $1,090,000 and were amortized over two years commencing January 1, 1968. Consequently $545,000 has been charged to earnings in each of the years 1968 and 1969 ($409,000 for the nine months ended September 30, 1969) and these amounts are shown on the Consolidated Statements of Earnings as Amortization of facilities to be retired. These pumping facilities are now or will be installed elsewhere in the system.

3. Long Term Debt (Note 12):

| | Originally Issued | Outstanding December 31, 1969 | Outstanding September 30, 1970 |
|---|---|---|---|
| Interprovincial Pipe Line Company— | | (in thousands of dollars) | |
| First Mortgage and Collateral Trust Bonds— | | | |
| Series A—3½% due January 1, 1970 | $37,000 Can. | $ 7,453 | $ — |
| B—3½% due January 1, 1970 | 35,000 U.S. | 7,560 | — |
| C—4% due April 1, 1973 | 60,000 U.S. | 24,076 | 20,372 |
| D—3⅝% due April 1, 1974 | 30,000 U.S. | 13,788 | 11,951 |
| E—5½% due April 1, 1985 | 12,000 Can. | 11,340 | 11,010 |
| Sinking Fund Debentures— | | | |
| Series A—6% due November 1, 1986 | 35,000 Can. | 34,749 | 33,434 |
| Bank Loans— | | | |
| $20,000,000 repayable by July 1, 1971 | | 20,000 | 20,000 |
| $25,000,000 available, repayable over a six-year period commencing in 1971 | | 10,000 | 25,000 |
| Lakehead Pipe Line Company, Inc.: | | | |
| Sinking Fund Debentures (guaranteed by Interprovincial)— | | | |
| Series A—6½% due August 1, 1992 | 30,000 U.S. | 32,298 | 32,298 |
| B—7⅛% due April 15, 1993 | 75,000 U.S. | 80,755 | 80,755 |
| Bank Loan (guaranteed by Interprovincial)— | | | |
| $35,000,000 U.S. repayable over a five-year period commencing in 1970 | | 37,731 | 32,072 |
| | | 279,750 | 266,892 |
| Less: Long term debt due within one year except final payments on Series A and B Bonds due January 1, 1970 and Interprovincial's bank loan due July 1, 1971 (see explanation below) | | 14,566 | 17,773 |
| | | $265,184 | $249,119 |

On January 2, 1970 the balance of $15 million available to Interprovincial from bank loans was drawn down and applied toward final payments on the First Mortgage and Collateral Trust Bonds—Series A and Series B. Such final payments are included in Long Term Debt as at December 31, 1969.

The long term debt due within one year at September 30, 1970 does not include the $20 million bank loan due July 1, 1971 which will be repaid from proceeds of the proposed Series B Debenture issue (Note 12).

Interprovincial's and Lakehead's bank loans bear interest based on the prevailing prime bank rates which may vary from time to time. Repayment of these loans may be accelerated at any time without penalty.

Principal repayments required on Long Term Debt (including bank loans drawn down January 2, 1970) for the period October 1, to December 31, 1971 and for the years 1972 through 1975 are $3,837,000, $20,908,000, $23,698,000, $20,343,000 and $3,702,000 respectively.

4. Deferred Income Taxes:

Under Canadian and United States income tax regulations more depreciation may be deducted for tax purposes than the amounts recorded in the accounts for Provision for depreciation and Amortization of facilities to be retired (Note 2); also, interest capitalized and, in the United States, sales and property taxes capitalized, may be claimed for tax purposes in the year incurred. The companies are taking advantage of the maximum deductions permitted for tax purposes which results in a deferment of taxes to future years when amounts deductible will be less than the amounts recorded in the accounts.

The net amount deferred is shown separately under Provision for income taxes on the Consolidated Statements of Earnings and the accumulated amount of taxes so deferred is carried on the Consolidated Balance Sheets under the heading Deferred Income Taxes.

5. Deferred Investment Tax Credit:

During the period January 1, 1962 to April 18, 1969 the United States subsidiary companies were allowed a credit against income taxes payable of a specified percentage of the cost of most depreciable assets acquired and placed into service, excluding certain assets acquired during a suspension period from October 10, 1966 through March 9, 1967. The investment tax credit has been deferred and is being taken into earnings over the life of the related assets.

A portion of the investment tax credit resulting from 1968 and 1969 construction programs was in excess of the maximum amount allowed as a credit against income taxes currently payable and was claimed against taxes paid in prior years. As a result income taxes previously paid of $1,765,000 were recovered in 1969 and $1,189,000 in 1970.

The net charge or credit to earnings, after deducting the above amounts in 1968 and 1969, is shown separately under Provision for income taxes on the Consolidated Statements of Earnings and the unamortized investment tax credit is shown on the Consolidated Balance Sheets under the heading Deferred Investment Tax Credit.

6. Capital Stock:

Share purchase warrants, which were issued in 1966 with the Series A Debentures, are outstanding which entitle the holders to purchase shares of capital stock of Interprovincial on or before November 1, 1976 at $17 per share. During 1969 warrants to purchase 125 shares were exercised and during the nine months ended September 30, 1970 no warrants were exercised, leaving warrants to purchase 872,450 shares outstanding at December 31, 1969 and September 30, 1970.

Of the authorized and unissued shares of Interprovincial, 250,000 shares have been reserved under the Employee Incentive Stock Option Plan which was approved by shareholders on April 9, 1969 and which terminates ten years thereafter. Under the Plan, key employees may be granted options to purchase such shares exercisable for a period not exceeding ten years

after the date of granting the options at not less than 90% of the closing market price on that date. In 1969 options to purchase 100,000 shares at $17 per share were granted of which options to purchase 4,500 shares were terminated under the terms of the Plan leaving options on 95,500 shares outstanding at December 31, 1969. During the nine months ended September 30, 1970 options for 1,500 shares were exercised at $17 per share for a total cash consideration of $25,500; options for 1,000 shares at $17 per share were cancelled; and options for 50,000 shares were granted at $20.50 per share. Cash received from the exercising of options was credited to Capital stock to the extent of par value and the remainder of $24,000 was credited to Contributed surplus. At September 30, 1970 options were outstanding as follows:

| | |
|---|---|
| Exercisable on or before April 8, 1979 at $17 per share | 93,000 shares |
| Exercisable after April 7, 1971 and on or before April 7, 1980 at $20.50 per share | 50,000 shares |
| | 143,000 shares |

7. Contributed Surplus:

Contributed surplus increased by $34,000, $4,000, and $2,000 during the years 1967 to 1969 respectively and by $2,000 and $24,000 during the nine months ended September 30, 1969 and 1970 respectively. These increases represent premium paid on capital stock issued in respect of exercised share purchase warrants and stock options in excess of the par value of such stock.

8. Pension Plans:

The companies have contributory pension plans covering substantially all of their respective employees. The plans were revised for both past and future service effective January 1, 1966 and January 1, 1968 for Interprovincial and Lakehead respectively. The actuarial liability for past service benefits arising from these revisions, in the principal amount of approximately $1,900,000 as at December 31, 1969, together with interest, will be amortized by charges to earnings over a period of up to eighteen years. Charges to earnings in respect of both plans were $193,000, $437,000, $466,000, $571,000 and $588,000 for the years 1965 through 1969 respectively and $457,000 and $435,000 for the nine months ended September 30, 1969 and 1970 respectively.

9. Income Tax Status:

The companies have made what they believe are adequate provisions for income taxes, and their federal income tax returns have been reviewed and assessed up to and including the year 1968 for Interprovincial and 1966 for Lakehead.

10. Michigan Franchise Tax:

The State of Michigan has issued assessments against Lakehead for franchise taxes for the years 1957 through 1970. This tax imposes an annual fee upon all corporations for the privilege of doing business in Michigan. Counsel has advised that the assessments are unconstitutional when imposed on corporations engaged solely in interstate and foreign commerce. Lakehead has commenced litigation against the State of Michigan to have the assessments set aside.

Pending determination of the issue, provision has been made annually for the taxes and interest involved in amounts (after income taxes) of $30,000, $96,000, $110,000 and $126,000 for the years 1966 through 1969 respectively and $89,000 and $363,000 for the nine months ended September 30, 1969 and 1970 respectively. No provision was made in 1965.

The accumulated provision (after income taxes) amounts to $682,000 at December 31, 1969 and $1,045,000 at September 30, 1970. The latter amount includes $239,000 resulting from a further reassessment by the State on September 11, 1970 of prior years' assessments for the years 1957 through 1965.

11. Consolidated Earnings Available for Interest:

Consolidated earnings available for payment of interest on the long term debt of Interprovincial (after deducting (a) income taxes and interest on long term debt payable by Lakehead, and (b) taxes exigible on distribution of Lakehead earnings), were $37,586,000, $39,703,000, $41,142,000, $44,939,000 and $47,849,000 for the years 1965 through 1969 respectively, and $35,277,000 and $43,134,000 for the nine months ended September 30, 1969 and 1970 respectively.

12. New Financing:

Interprovincial has entered into an agreement with underwriters for the sale of $60,000,000 principal amount of 9⅜% Sinking Fund Debentures, Series B for a net amount of $59,130,000 and has agreed to pay legal, audit and other expenses, estimated at $100,000, in connection with the issue.

## Auditors' Report

To the Board of Directors of
Interprovincial Pipe Line Company:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Company and subsidiary companies as at December 31, 1969 and the consolidated statements of earnings, retained earnings and source and application of funds for the five years then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the five years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Edmonton, Alberta,
November 12, 1970

(Signed) Price Waterhouse & Co.
Chartered Accountants

## Purchaser's Statutory Rights of Withdrawal and Rescission

Sections 63 and 64 of The Securities Act, 1967 (Alberta), sections 70 and 71 of The Securities Act, 1967 (Saskatchewan), sections 63 and 64 of The Securities Act, 1968 (Manitoba) and sections 63 and 64 of The Securities Act, 1966 (Ontario) provide, in effect, that where a security is offered to the public in the course of primary distribution:

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor or his agent not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by him or his agent, and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Sections 61 and 62 of the Securities Act, 1967 (British Columbia) provide, in effect, that where a security is offered to the public in the course of primary distribution:

(a) a purchaser has a right to rescind a contract for the purchase of such security, while still the owner thereof, if a copy of the last prospectus, together with financial statements and reports and summaries of reports relating to the securities as filed with the British Columbia Securities Commission, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of the securities. Written notice of intention to commence an action for rescission must be served on the person who contracted to sell within 60 days of the date of delivery of the written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice, and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Reference is made to the aforesaid Acts for the complete texts of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

## Certificates

Dated: November 12, 1970

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia) and the regulations thereunder, by Part 7 of The Securities Act, 1967 (Alberta) and the regulations thereunder, by Part VIII of The Securities Act, 1967 (Saskatchewan) and the regulations thereunder, by Part VII of The Securities Act, 1968 (Manitoba) and the regulations thereunder, by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder, under the Securities Act (Quebec) and by Section 13 of the Securities Act (New Brunswick).

(Signed) D. G. Waldon
*President*

(Signed) J. Blight
*Secretary-Treasurer*

*On Behalf of the Board of Directors*

(Signed) J. W. Hamilton
*Director*

(Signed) R. D. Parker
*Director*

*Directors*

(Signed) D. G. Waldon

(Signed) J. W. Hamilton

(Signed) R. D. Parker

(Signed) W. H. Rea

(Signed) J. G. Livingstone

(Signed) J. W. Morgan

Jerry Albert Cogan
Robert Haley Reid
By their Attorney (Signed) J. Blight

(Signed) G. D. Wotherspoon

(Signed) W. P. Wilder

(Signed) J. F. Bookout

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia) and the regulations thereunder, by Part 7 of The Securities Act, 1967 (Alberta) and the regulations thereunder, by Part VIII of The Securities Act, 1967 (Saskatchewan) and the regulations thereunder, by Part VII of The Securities Act, 1968 (Manitoba) and the regulations thereunder, by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder, under the Securities Act (Quebec) and by Section 13 of the Securities Act (New Brunswick).

Wood Gundy Securites Limited

By: (Signed) David C. H. Stanley

McLeod, Young, Weir & Company Limited

By: (Signed) J. S. Dinnick

The following includes the name of every person having an interest directly or indirectly to the extent of not less than 5% in the capital of:

Wood Gundy Securities Limited: C. L. Gundy, W. P. Wilder, J. N. Cole, E. S. Johnston, J. K. McCausland, P. J. Chadsey, J. R. LeMesurier, C. E. Medland, J. N. Abell, D. C. H. Stanley and I. S. Steers; and

McLeod, Young, Weir & Company Limited: J. S. Dinnick, G. C. MacDonald, C. P. Keeley, J. R. Hilborn, R. J. G. Reiner, L. E. Barlow, J. L. McLaughlin and C. E. Godwin.

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AR17

PRESS RELEASE

FOR IMMEDIATE RELEASE

January 28, 1970

Consolidated net income (unaudited) of Interprovincial Pipe Line Company for 1969 amounted to $24.4 million equivalent to 96¢ per share. In 1968 the company earned $23.3 million or 92¢ per share.

Crude oil and natural gas liquids delivered by the system in 1969 averaged 775,971 barrels per day, some 8% more than the 716,727 barrels a day averaged in 1968.

Capital expenditures totalled $71 million as compared to $114 million in 1968. A further $5 million will be expended in 1970 to complete 1969 projects.

The company now has three lines in operation between Edmonton and Superior, Wisconsin and two lines in operation from Superior to Sarnia, the second line via Chicago. Deliveries to refineries in the Chicago area commenced in January 1970.

As previously announced, the 1970 expansion program is presently estimated at $10.3 million, largely for additional horsepower, tankage and twenty miles of 20-inch looping in Ontario.

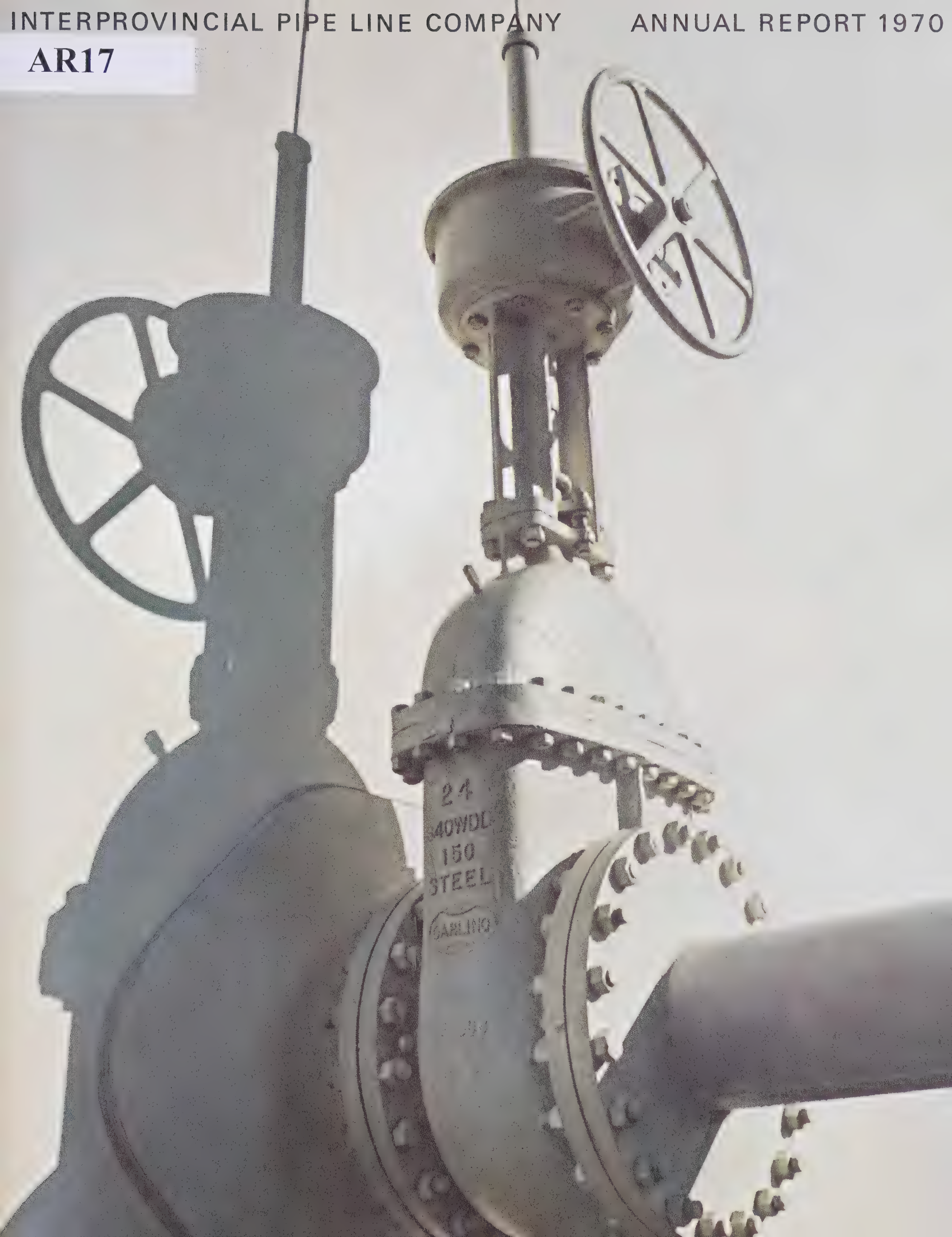
The Board of Directors today declared a quarterly dividend of 20¢ per share payable March 2, 1970 to shareholders of record February 5.

D. G. Waldon
President

Interprovincial Pipe Line Company
7 King Street East
Toronto, Ontario

INTERPROVINCIAL PIPE LINE COMPANY ANNUAL REPORT 1970

AR17



## THE PIPE LINE TRANSPORTATION SYSTEM
(as at December 31, 1970)

| | Canada | United States | Total |
|---|---|---|---|
| Miles of right-of-way | 1,038 | 1,740 | 2,778 |
| Miles of main line pipe | 2,765 | 2,391 | 5,156 |
| Number of pumping stations | 22 | 26 | 48 |
| Installed horsepower—diesel | 44,220 | 96,335 | 140,555 |
| —electric | 211,900 | 133,500 | 345,400 |
| Total | 256,120 | 229,835 | 485,955 |
| Line fill, in barrels (provided by shippers) | 8,700,000 | 10,400,000 | 19,100,000 |
| Tankage capacity, in barrels | 6,309,000 | 4,141,000 | 10,450,000 |
| Separate streams of crude oil transported | | | 31 |

## CORPORATE INFORMATION

**EXECUTIVE OFFICE**
7 King Street East . . . . . . . . . . . . . . . . . . . . . . Toronto, Ontario

**HEAD OFFICE**
10015—103 Avenue . . . . . . . . . . . . . . . . . . . . . Edmonton, Alberta

**STOCK TRANSFER AGENTS**
The Royal Trust Company . . . . . . . . . Toronto, Montreal, Halifax, Winnipeg, Regina, Edmonton, Vancouver
Chemical Bank . . . . . . . . . . . . . . . . . . . . . . . . . . New York

**STOCK REGISTRARS**
Montreal Trust Company . . . . . . . . . Toronto, Montreal, Halifax, Winnipeg, Regina, Edmonton, Vancouver
Bank of Montreal Trust Company . . . . . . . . . . . . . . . . . . . New York

**DIVIDEND DISBURSING AGENT**
The Royal Trust Company—P.O. Box 7500, Postal Station 'A' . . Toronto, Ontario

## TABLE OF CONTENTS



*Annual General Meeting—2:30 p.m. April 14, 1971, Roof Garden, Royal York Hotel, 100 Front Street West, Toronto, Ontario*

Cover picture: Tank valve at Superior.

(Incorporated by Special Act of the Parliament of Canada, April 30, 1949)

## DIRECTORS

John F. Bookout . . . . . . . . . . *President & Director, Shell Canada Limited, Toronto*

Jerry A. Cogan . . . . . . *Senior Vice-President & Director, Imperial Oil Limited, Toronto*

John W. Hamilton . . . . . . . *Vice-President & Director, Imperial Oil Limited, Toronto*

James G. Livingstone . . . . . . *Vice-President & Director, Imperial Oil Limited, Toronto*

J. Willis Morgan . . . . . . . . . . . *Vice-President, Gulf Oil Canada Limited, Toronto*

Ralph D. Parker . . . . . . . . . . . *Consultant, former Senior Vice-President & Director, The International Nickel Company of Canada, Limited, Toronto*

W. Harold Rea . . . . *Chairman of the Board, Great Canadian Oil Sands Limited, Toronto*

Robert H. Reid . . . . . *President & Managing Director, London Life Insurance Company, London, Ontario*

David G. Waldon . . . . . . . . . *President, Interprovincial Pipe Line Company, Toronto*

William P. Wilder . . . . . *President & Director, Wood Gundy Securities Limited, Toronto*

Gordon D. deS. Wotherspoon . . . . . . . *Executive Vice-President & Director, Eaton's of Canada Limited, Toronto*

## OFFICERS

David G. Waldon . . . . . . . . . . . . . . . . . . . . . . . . . *President*

John W. Hamilton . . . . . . . . . . . . . . . . . . . . . . . . *Vice-President*

Robert K. Heule . . . . . . . . . . . . . . . . . *Vice-President & General Manager*

John Blight . . . . . . . . . . . . . . . . . . . . . . . . *Secretary-Treasurer*

Robert B. Burgess . . . . . . . . . . . . . . . . . . . . . . . *General Counsel*

Frederick B. Newton . . . . . . . . . . . . . . . . . . . . . *Assistant Treasurer*

E. Gordon Sheasby . . . . . . . . . . . *Assistant General Counsel & Assistant Secretary*

## Highlights

| FINANCIAL | 1970 | 1969 | Percentage Increase (Decrease) |
|---|---|---|---|
| Transportation revenue | $133,707,000 | $114,465,000 | 16.8% |
| Other income | $ 1,643,000 | $ 994,000 | |
| Expenses, excluding taxes | $ 63,679,000 | $ 55,862,000 | 14.0 |
| Income and other taxes | $ 42,174,000 | $ 35,171,000 | 19.9 |
| Earnings | $ 29,497,000 | $ 24,426,000 | 20.8 |
| per share | $1.16 | $0.96 | |
| Dividends | $ 20,352,000 | $ 18,316,000 | 11.1 |
| per share | $0.80 | $0.72 | |
| Funds provided from operations | $ 52,825,000 | $ 49,137,000 | 7.5 |
| per share | $2.08 | $1.93 | |
| Capital expenditures | $ 17,795,000 | $ 70,595,000 | |

| STATISTICAL | | | |
|---|---|---|---|
| Deliveries (barrels per day) | | | |
| Average for year | 900,919 | 775,971 | 16.1 |
| highest month | 1,017,591 | 870,483 | |
| lowest month | 748,053 | 653,900 | |
| Barrel miles (millions) | 444,318 | 366,287 | 21.3 |
| Number of employees—December 31 | 641 | 603 | 6.3 |
| Investment in plant, per employee | $ 940,000 | $ 974,000 | (3.5) |

Edmonton tank farm and pumping station showing two new 290,000-barrel tanks in left background

## Directors' Report to Shareholders:

As expected, the demand for refinery feed stocks in all areas served by the company continued to increase in 1970. This fact, coupled with the easing of import restrictions in the United States and the opening of the Chicago market to Canadian oil, resulted in deliveries of crude oil and natural gas liquids reaching a new high of 328.8 million barrels. This is the equivalent of 900,900 barrels per day and is 16% more than in 1969.

Deliveries in the United States averaged 404,000 b/d in 1970 as compared to 313,200 b/d in 1969. They started off the year in excess of 500,000 b/d—reduced substantially when imports of Canadian crude east of the Rocky Mountains were limited to 395,000 b/d by Presidential Proclamation retroactive to March 1—and increased again in November when the United States decided to exempt natural gas liquids and allow U.S. refiners to exchange unused allocations of other foreign crude for additional quantities of Canadian crude. Late in 1970 the quota for 1971 was established at 450,000 b/d exclusive of natural gas liquids.

Earnings also reached a new high in 1970. Net income amounted to $29.5 million, equivalent to $1.16 per share. Capital expenditures totalled $17.8 million.

As described elsewhere in this report, the comparatively modest expansion program planned for 1970 was substantially completed by the end of the year. The original plans were to increase the capacity of the pipe line system by approximately 75,000 b/d. In the light of the indicated increased demand as a result of the unsettled Middle East situation, however, the program was revised upwards twice during the year to provide for a total increase of 135,000 b/d. The capacity of the pipe line system ex Cromer, Manitoba is

now 1,104,000 b/d. Cromer is the last major receiving point on the system and is therefore a key location.

With the supply situation throughout the world still unsettled, it was decided to further increase in 1971 the capacity of the pipe line system as far as Sarnia to the maximum extent practicable short of commencing construction of a fourth line between Edmonton and Superior. The increase totals approximately 200,000 b/d and will be accomplished entirely by horsepower. When the program is completed late in 1971 the capacity of the system out of Cromer will be 1,308,000 b/d which, when combined with the capacities of the other export lines and after taking into consideration local requirements, should be sufficient to match the presently planned producing capabilities in Western Canada. East of Sarnia the capacity of the system will be increased to 355,000 b/d by looping. The cost of the entire program is estimated at $59 million.

Interprovincial continued as an active participant in Mackenzie Valley Pipe Line Research Limited. There

GENERAL ROUTE OF MACKENZIE VALLEY PIPE LINE

are now fifteen shareholder participants plus an associate member (a natural gas group) and to date $3 million has been expended on research, largely on an above-ground test section near Inuvik, N.W.T. Research is continuing directed largely at route selection and construction methods with special emphasis on the ecology of the terrain and how best to protect the environment.

Chicago area refinery

## FINANCIAL REVIEW

The Consolidated Financial Statements and the Notes, appearing on pages 9 through 15, include the accounts of Interprovincial Pipe Line Company and its subsidiaries, all of which are wholly owned. These are Lakehead Pipe Line Company, Inc., which owns and operates the portion of the pipe line system in the United States, and its subsidiary, Pipe Line Service Company, Inc., which owns Lakehead's aircraft and radio communication system. Interprovincial also has a Canadian subsidiary, Interprovincial Pipe Line Patrol Company Limited which is inactive.

### Earnings and Dividends

Earnings for 1970 were \$29.5 million—an increase of \$5.1 million over 1969. Earnings per share were \$1.16 compared with 96¢ per share in the previous year.

The quarterly dividend rate was increased from 18¢ to 20¢ per share effective with the March 1970 dividend. Dividends for the year totalled \$20.4 million and represented 69% of earnings.

### Income and Expenses

As a result of greater deliveries of crude oil, transportation revenue increased 17% to \$133.7 million from \$114.5 million in 1969. Other income increased from \$1 million in 1969 to \$1.6 million, largely due to an increase in the amount of cash available for short term investment.

Operating and administrative expenses at \$27.5 million were \$2.1 million more than in 1969. Additional employees, increased salary and wage rates, and higher maintenance costs due to increased throughput, were mainly responsible for the rise. Fuel and power costs of \$11 million were the same as in 1969 despite a 21% increase in barrel miles. Completion in late 1969 of the third line between Edmonton and Superior and of the line between Chicago and Sarnia—allowing removal of the ten temporary pumping stations on the northern line between Superior and Sarnia—resulted in lower unit fuel and power costs.

Property taxes and depreciation increased in 1970 as a result of the \$70.6 million expansion program carried out in 1969. Interest expense was substantially higher due to bank loans incurred to finance this construction program and to refinance maturing low-interest bonds.


133.7
.6

## New Financing

On December 1, 1970, $60 million Interprovincial 9⅜% Sinking Fund Debentures, Series B due December 1, 1990 were sold to the public at par. Part of the proceeds was used to prepay the $20 million bank loan due July 1, 1971 and the 1971 instalment of $5 million on the company's $25 million term bank loans. The remainder, together with internally generated funds, will be required for the 1971 construction program.

## Tariffs

Interprovincial and Lakehead are engaged exclusively in the transportation of crude oil and other liquid hydrocarbons by pipe line at established tariffs. Tariffs remained unchanged during the year.

Rates from the two main receiving points to the principal delivery points are presently as follows:

| To | Rates for light crudes in cents per barrel From | |
|---|---|---|
| | Edmonton | Cromer |
| Regina | 20.7¢ | —¢ |
| Gretna | 29.5 | 11.4 |
| Clearbrook | 32.5 | 16.7 |
| Superior | 36.3 | 22.5 |
| Detroit/Toledo | 53.0* | 42.3* |
| Chicago | 45.0 | 34.0 |
| Sarnia | 48.0 | 37.3 |
| Toronto area | 51.0 | 40.3 |
| Buffalo | 53.0 | 42.3 |

**Joint rates with connecting carriers*

## Operations

Receipts into the system during the year increased 15% to 904,100 barrels per day. As noted below, the increase was almost entirely from Alberta although, for the first time, small quantities of United States domestic crude oil were received at Chicago for delivery to the Buffalo area. In June, a new natural gas liquids stream was initiated from Western Canada to Sarnia. The stream contains a mixture of propane, butane and condensate and by year end 1.3 million barrels had been transported.

### Petroleum Receipts
*(thousands of barrels per day)*

| | 1970 | 1969 |
|---|---|---|
| Alberta | 659.4 | 542.1 |
| Saskatchewan | 224.9 | 225.8 |
| Manitoba | 16.4 | 17.5 |
| Ontario | 0.8 | 0.5 |
| United States | 2.6 | — |
| | 904.1 | 785.9 |

Deliveries averaged 900,900 b/d—an increase of 16% over 1969.

### Petroleum Deliveries
*(thousands of barrels per day)*

| | 1970 | 1969 |
|---|---|---|
| Canada | | |
| Western Canada | 116.4 | 111.5 |
| Ontario | 380.5 | 351.3 |
| | 496.9 | 462.8 |
| United States | | |
| Minnesota-Wisconsin | 142.7 | 135.5 |
| Illinois-Indiana | 49.9 | — |
| Michigan-Ohio | 121.8 | 105.5 |
| New York-Pennsylvania | 89.6 | 72.2 |
| | 404.0 | 313.2 |
| | 900.9 | 776.0 |

## 1970 Review

Capital expenditures during the year totalled $17.8 million. It was originally planned to increase capacity of the pipe line system by 75,000 barrels per day but this was subsequently enlarged to 135,000 b/d. To achieve this increase 49,025 horsepower was installed at thirteen locations between Edmonton and Chicago. In addition, 10,000 horsepower was installed at four locations in Ontario.

The 20 miles of 20-inch looping in Ontario was completed in early summer well ahead of schedule. The two 290,000-barrel tanks at Edmonton and the one 217,000-barrel tank at Griffith were also completed on schedule.

## 1971 Forecast

The expansion program planned for 1971, together with the amount required to complete the 1970 projects, is expected to result in capital expenditures of $59 million.

The planned increase in capacity is the maximum practicable short of beginning construction of a fourth line between Edmonton and Superior and will be accomplished by fully powering the present system between Edmonton and Superior and adding pumping units between Superior and Chicago.

Between Sarnia and Toronto, 35 miles of 20-inch loops are being installed. This, together with 76 miles already

Shell's refinery near Oakville, Ontario

in operation, will complete 71% of the second line. Between Westover and Buffalo the capacity of the 12-inch line will be increased by the installation of 46 miles of 20-inch loops in Canada and additional pumping units. The work on the line to Buffalo will be timed to coincide with the completion of the pipe line United Refining has announced it will be constructing from Buffalo to Warren, Pennsylvania.

The following table summarizes the presently planned construction by sections of the system:

| | Pumping Equipment | | Looping | |
|---|---|---|---|---|
| Line Section | Units | Horse-power | Size | Miles |
| Edmonton-Regina | 18 | 75,000 | — | — |
| Regina-Gretna | 13 | 55,000 | — | — |
| Gretna-Superior | 13 | 57,500 | — | — |
| Superior-Sarnia via Chicago | 22 | 41,250 | — | — |
| Sarnia-Port Credit | — | — | 20″ | 35 |
| Westover-Buffalo | 3 | 6,000 | 20″ | 46 |
| | 69 | 234,750 | | 81 |

Eight additional tanks will be erected during the year—two of 290,000 barrels at Edmonton, two of 217,000 barrels at Superior and Griffith and two of 150,000 barrels at Sarnia.

## Capacity

The annual average physical capacities of the various sections of the system that will be available for 1971 and 1972 operations are as follows:

| | Thousands of Barrels Per Day | |
|---|---|---|
| Line Section | 1971 | 1972 |
| Edmonton-Regina | 1,027 | 1,251 |
| Regina-Cromer | 1,017 | 1,236 |
| Cromer-Gretna | 1,104 | 1,308 |
| Gretna-Superior | 1,104 | 1,308 |
| Superior-Sarnia via Straits of Mackinac | 538 | 538 |
| Superior-Chicago | 398 | 621 |
| Chicago-Sarnia | 306 | 330 |
| Sarnia-Port Credit | 316 | 355 |
| Westover-Buffalo | 90 | 133 |

## GENERAL

At the Annual Meeting on April 8, 1970 Mr. G. D. deS. Wotherspoon was elected a director to fill the vacancy created by the death of Mr. T. S. Johnston, former President and Chairman of the Board. In August, Mr. Harold Bridges resigned from the board and was replaced by Mr. J. F. Bookout, who had succeeded him as President and Director of Shell Canada Limited.

The directors and management take this opportunity of complimenting and thanking the employees for the high level of performance maintained throughout the year.

*On behalf of the Board of Directors*

R. G. Waldon

*President*

## Consolidated statement of earnings

| | Year ended December 31 1970 | Year ended December 31 1969 |
|---|---|---|
| *Income:* | | |
| Transportation revenue | $133,707,000 | $114,465,000 |
| Other income | 1,643,000 | 994,000 |
| | 135,350,000 | 115,459,000 |
| *Expenses:* | | |
| Operating and administrative | 27,492,000 | 25,404,000 |
| Taxes, other than income taxes | 9,643,000 | 8,338,000 |
| Provision for depreciation (Note 2) | 17,519,000 | 16,070,000 |
| Interest on long term debt | 18,810,000 | 13,898,000 |
| Loss (gain) on foreign exchange (Note 1) | (142,000) | 490,000 |
| | 73,322,000 | 64,200,000 |
| *Earnings before income taxes* | 62,028,000 | 51,259,000 |
| *Provision for income taxes:* | | |
| Current | 26,890,000 | 18,342,000 |
| Deferred (Note 4) | 6,351,000 | 7,883,000 |
| Deferred investment tax credit, net (Note 5) | (710,000) | 608,000 |
| | 32,531,000 | 26,833,000 |
| *Earnings for the year* | $ 29,497,000 | $ 24,426,000 |
| *Earnings per share* (Note 6) | $1.16 | $0.96 |

## Consolidated statement of retained earnings

| | Year ended December 31 1970 | Year ended December 31 1969 |
|---|---|---|
| *Balance at beginning of year* | $ 64,597,000 | $ 58,487,000 |
| Earnings for the year | 29,497,000 | 24,426,000 |
| | 94,094,000 | 82,913,000 |
| Dividends paid—(per share: $0.80-1970; $0.72-1969) | 20,352,000 | 18,316,000 |
| *Balance at end of year* | $ 73,742,000 | $ 64,597,000 |

*The accompanying notes are part of the financial statements.*

## Consolidated balance sheet

### ASSETS

| | December 31 1970 | December 31 1969 |
|---|---|---|
| *Current Assets:* | | |
| Cash | $ 2,403,000 | $ 2,370,000 |
| Term deposits with Canadian chartered banks | 38,645,000 | 2,415,000 |
| Short term investments, at cost which is equivalent to market | 5,223,000 | 3,304,000 |
| Accounts receivable— | | |
| Transportation charges | 10,084,000 | 8,439,000 |
| Other | 780,000 | 2,558,000 |
| Inventory of materials and supplies, at cost | 2,370,000 | 2,185,000 |
| Prepaid expenses | 559,000 | 565,000 |
| | 60,064,000 | 21,836,000 |
| *Other Assets and Deferred Charges:* | | |
| Unamortized discount and expense on long term debt | 3,332,000 | 2,540,000 |
| Other | 113,000 | 635,000 |
| | 3,445,000 | 3,175,000 |
| *Pipe Line Transportation System,* at cost (Note 2) | 602,312,000 | 587,340,000 |
| Less—Accumulated depreciation | 167,029,000 | 152,015,000 |
| | 435,283,000 | 435,325,000 |
| | $498,792,000 | $460,336,000 |

*The accompanying notes are part of the financial statements.*

## LIABILITIES

| | December 31 1970 | 1969 |
|---|---|---|
| *Current Liabilities:* | | |
| Accounts payable | $ 5,216,000 | $ 5,895,000 |
| Interest accrued | 3,470,000 | 3,614,000 |
| Income and other taxes | 12,484,000 | 7,791,000 |
| Long term debt due within one year (Note 3) | 7,046,000 | 15,026,000 |
| | 28,216,000 | 32,326,000 |
| *Long Term Debt* (Note 3) | 292,829,000 | 265,184,000 |
| *Deferred Income Taxes* (Note 4) | 48,808,000 | 42,457,000 |
| *Deferred Investment Tax Credit* (Note 5) | 9,617,000 | 10,257,000 |
| *Shareholders' Equity:* | | |
| Capital stock (Note 6)— | | |
| Authorized—$100,000,000 divided into 100,000,000 shares, par value $1 each | | |
| Issued—1970—25,442,785 shares | 25,443,000 | |
| —1969—25,438,960 shares | | 25,439,000 |
| Contributed surplus—premium on shares (Note 6) | 20,137,000 | 20,076,000 |
| Retained earnings | 73,742,000 | 64,597,000 |
| | 119,322,000 | 110,112,000 |
| | $498,792,000 | $460,336,000 |

*Approved on Behalf of the Board:*

R. H. Reid, *Director*

D. G. Waldon, *Director*

## Consolidated statement of source and application of funds

| | Year ended December 31 | |
|---|---|---|
| | 1970 | 1969 |
| *Funds were provided from the following:* | | |
| Earnings for the year | $ 29,497,000 | $ 24,426,000 |
| Add—Non-cash charges and (credits) to earnings: | | |
| Depreciation (Note 2) | 17,519,000 | 16,070,000 |
| Deferred income taxes (Note 4) | 6,351,000 | 7,883,000 |
| Deferred investment tax credit, net (Note 5) | (710,000) | 608,000 |
| Other | 168,000 | 150,000 |
| Funds provided from operations | 52,825,000 | 49,137,000 |
| Long term debt (Note 3): | | |
| Bank loans— | | |
| Interprovincial Pipe Line Company | 15,000,000 | 18,800,000 |
| Lakehead Pipe Line Company, Inc. | — | 37,731,000 |
| Debentures issued by Interprovincial Pipe Line Company | 60,000,000 | — |
| Other transactions, net | 975,000 | 1,692,000 |
| | 128,800,000 | 107,360,000 |
| *Funds were expended for the following:* | | |
| Dividends paid | 20,352,000 | 18,316,000 |
| Additions to pipe line transportation system | 17,795,000 | 70,595,000 |
| Long term debt retired or included in current liabilities | 47,355,000 | 14,817,000 |
| Cost of issuing long term debt | 960,000 | — |
| | 86,462,000 | 103,728,000 |
| *Increase in working capital* | 42,338,000 | 3,632,000 |
| *Working capital (deficit) at beginning of year* | (10,490,000) | (14,122,000) |
| *Working capital (deficit) at end of year* | $ 31,848,000 | $ (10,490,000) |

*The accompanying notes are part of the financial statements.*

## Notes to consolidated financial statements

### 1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Interprovincial Pipe Line Company and its wholly owned subsidiaries. These are Interprovincial Pipe Line Patrol Company Limited in Canada and Lakehead Pipe Line Company, Inc., and its subsidiary, Pipe Line Service Company, Inc. in the United States.

United States dollar amounts have been translated into Canadian dollars on the following bases:

Current assets and liabilities—at the rate of exchange December 31;

Other assets and liabilities—at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net gains or losses arising from the foregoing methods are shown on the Consolidated Statement of Earnings as Loss (gain) on foreign exchange. The gain on foreign exchange for the year ended December 31, 1970 includes a non-recurring gain of approximately $500,000 as of June 1, 1970 arising from the unpegging of the Canadian dollar on that date.

### 2. PIPE LINE TRANSPORTATION SYSTEM: PROVISION FOR DEPRECIATION:

The pipe line transportation system and accumulated depreciation by major classes are as follows:

| | Investment, at cost | Accumulated depreciation | Net investment December 31 | |
|---|---|---|---|---|
| | December 31, 1970 | | 1970 | 1969 |
| | *(in thousands of dollars)* | | | |
| Land | $ 1,818 | | $ 1,818 | $ 1,371 |
| Rights-of-way | 12,651 | $ 2,229 | 10,422 | 10,891 |
| Pipe line | 455,979 | 127,054 | 328,925 | 338,494 |
| Pumping equipment, buildings and tanks | 121,737 | 37,746 | 83,991 | 80,250 |
| Construction in progress | 10,127 | — | 10,127 | 4,319 |
| | $602,312 | $167,029 | $435,283 | $435,325 |

It is estimated that 1971 capital expenditures will amount to approximately $58,500,000. These will be financed from the unexpended proceeds of the December, 1970 issue of Interprovincial's debentures and funds generated within the companies.

The companies' policy is to provide for depreciation of fixed assets on the straight line method, at annual rates which will amortize the cost of depreciable properties over their estimated service lives, after taking into account possible salvage values. The rate of depreciation on the pipe line transportation system averages approximately 3.0%.

## 3. LONG TERM DEBT:

| | Originally issued | Outstanding December 31 1970 | 1969 |
|---|---|---|---|
| | | *(in thousands of dollars)* | |
| Interprovincial Pipe Line Company— | | | |
| First Mortgage and Collateral Trust Bonds— | | | |
| Series A—3½% due January 1, 1970 | $37,000 Can. | | $ 7,453 |
| B—3½% due January 1, 1970 | 35,000 U.S. | | 7,560 |
| C—4% due April 1, 1973 | 60,000 U.S. | $ 20,372 | 24,076 |
| D—3⅝% due April 1, 1974 | 30,000 U.S. | 11,951 | 13,788 |
| E—5½% due April 1, 1985 | 12,000 Can. | 11,010 | 11,340 |
| Sinking Fund Debentures— | | | |
| Series A—6% due November 1, 1986 | 35,000 Can. | 33,164 | 34,749 |
| B—9⅜% due December 1, 1990 | 60,000 Can. | 60,000 | — |
| Bank Loans— | | | |
| Repaid December 8, 1970 | | — | 20,000 |
| Repayable over the five year period 1972-1976 | | 20,000 | 10,000 |
| Lakehead Pipe Line Company, Inc.— | | | |
| Sinking Fund Debentures (guaranteed by Interprovincial) | | | |
| Series A—6½% due August 1, 1992 | 30,000 U.S. | 32,298 | 32,298 |
| B—7⅛% due April 15, 1993 | 75,000 U.S. | 80,755 | 80,755 |
| Bank Loan (guaranteed by Interprovincial)— | | | |
| $28,000,000 U.S., repayable over the three year period 1972-1974 | | 30,185 | 37,731 |
| | | 299,735 | 279,750 |
| Less—Long term debt due within one year | | 6,906 | 14,566 |
| | | $292,829 | $265,184 |

Interprovincial and Lakehead bank loans bear interest based on the prevailing prime bank rates which may vary from time to time. Repayment of these loans may be accelerated at any time without penalty.

Principal repayments required on Long Term Debt for the years 1972 through 1975 are $28,455,000, $23,698,000, $20,343,000 and $6,102,000 respectively.

## 4. DEFERRED INCOME TAXES:

Under Canadian and United States income tax regulations more depreciation may be deducted for tax purposes than the amount recorded in the accounts; also, during construction periods interest capitalized and, in the United States, sales and property taxes capitalized, may be claimed for tax purposes in the year incurred. The companies are taking advantage of the maximum deductions permitted for tax purposes which results in a deferment of taxes to future years when amounts deductible will be less than the depreciation recorded in the accounts.

## 5. DEFERRED INVESTMENT TAX CREDIT:

During the years 1962 through 1969 the United States subsidiary companies were allowed credits against income taxes payable of a specified percentage of the cost of most depreciable assets acquired and placed into service. The investment tax credit has been deferred and is being taken into earnings over the life of the related assets.

## 6. CAPITAL STOCK:

Share purchase warrants issued in 1966 with the Series A Sinking Fund Debentures entitle the holders to purchase shares of capital stock of the company on or before November 1, 1976 at $17 per share. During 1970 warrants to purchase 25 shares were exercised leaving 872,425 share purchase warrants outstanding at December 31, 1970. Cash received from the sale of these shares was credited to Capital stock to the extent of par value and the remainder was credited to Contributed surplus.

Under the Employee Incentive Stock Option Plan, 250,000 authorized shares of the capital stock have been reserved for issuance upon the exercise of stock options which may be granted to full-time employees at no less than 90% of market value of the shares on the day that an option is granted. Options may be granted for a term not exceeding ten years and are exercisable only after one year of employment from date of grant. During 1970 options for 3,800 shares were exercised for a total cash consideration of $65,000; options for 1,000 shares were terminated under terms of the plan; and options for 50,000 shares were granted. Cash received from the exercising of options was credited to Capital stock to the extent of par value and the remainder of $61,000 was credited to Contributed surplus. At December 31, 1970 options were outstanding as follows:

| | |
|---|---|
| Exercisable on or before April 8, 1979 at $17 per share | 90,700 shares |
| Exercisable after April 7, 1971 and on or before April 7, 1980 at $20.50 per share | 50,000 shares |
| | 140,700 shares |

At the year end, 31,500 shares were optioned to officers, including the one director who is a full-time employee; 105,500 shares were available for future grants.

Earnings per share are computed on the weighted average number of shares outstanding during the year. There would be no material dilution of earnings per share if the share purchase warrants and stock options had been exercised during the year.

### 7. PENSION PLANS:

The companies have pension plans which cover substantially all employees. The unfunded actuarial liability for past service benefits, in the principal amount of approximately $1,900,000 as at December 31, 1969, together with interest, will be amortized by charges to earnings over a period of up to eighteen years. The total expense of these plans in 1970 amounted to $576,000 of which $150,000 is applicable to past service benefits.

### 8. MICHIGAN FRANCHISE TAX:

The State of Michigan has issued assessments against Lakehead for franchise tax for the years 1957 through 1970. This tax imposes an annual fee upon all corporations for the privilege of doing business in Michigan. Counsel has advised that the assessments are unconstitutional when imposed on corporations engaged solely in interstate and foreign commerce. Lakehead has commenced litigation against the State of Michigan to have the assessments set aside.

Pending determination of the issue, the company has been providing annually for the tax and interest involved which amount to $2,072,000 at December 31, 1970 of which $800,000 was provided in the current year. The latter amount includes $501,000 resulting from a retroactive assessment for the years 1957 through 1965. The tax and interest will be deductible for income tax purposes at the time any assessments are paid and accordingly the tax effect has been included in deferred income taxes.

### 9. REMUNERATION OF DIRECTORS AND OFFICERS:

Thirteen directors, including two past directors, received remuneration of $31,000. Four officers, two of whom are directors including one who is not paid as an officer, received remuneration of $106,000. None of the directors or officers has received remuneration from any of the company's subsidiaries.

## AUDITORS' REPORT

To the Shareholders of
INTERPROVINCIAL PIPE LINE COMPANY:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Company and subsidiary companies as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
*Chartered Accountants.*

February 9, 1971.

## INTERPROVINCIAL PIPE LINE COMPANY and subsidiary companies

### Ten Year Review

**FINANCIAL**

(in thousands of dollars except per share amounts)

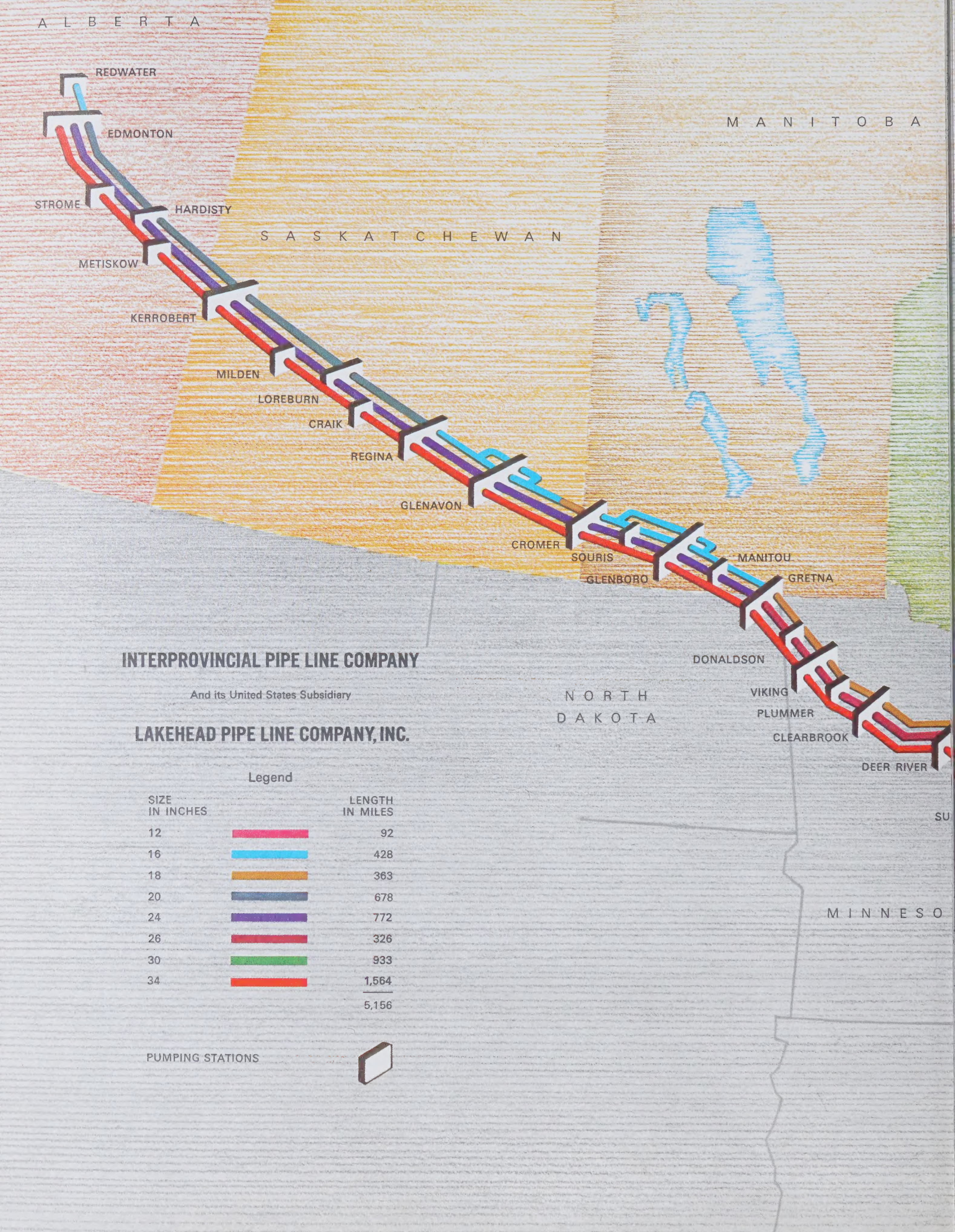
| |
|---|
| Income |
| Expenses |
| Income taxes |
| Earnings |
| per share, weighted average |
| Dividends paid |
| per share |
| percentage of earnings |
| Working capital (deficit) |
| Funds provided from operations |
| per share, weighted average |
| Additions to pipe line system |
| Investment in pipe line system (cost) |
| Long term debt |

**STATISTICAL**

| |
|---|
| Shares outstanding at year end (*thousands*) |
| Percentage of shares registered in Canada |
| Shareholders at year end |
| Number of employees at year end |
| Investment in pipe line system, per employee |
| Receipts (*barrels per day*) |
| Alberta |
| Saskatchewan |
| Manitoba |
| Ontario |
| United States |
| Deliveries (*barrels per day*) |
| Canada |
| Western Canada |
| Ontario |
| United States |
| Minnesota—Wisconsin |
| Illinois—Indiana |
| Michigan—Ohio |
| New York—Pennsylvania |
| Barrel miles (*millions*) |
| Average mileage per barrel delivered |
| Average transportation revenue per barrel |

| 1970 | 1969 | 1968 | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| $135,350 | 115,459 | 106,581 | 94,441 | 89,006 | 80,292 | 74,983 | 69,999 | 66,570 | 59,227 |
| $ 73,322 | 64,200 | 53,870 | 45,719 | 40,599 | 34,798 | 32,998 | 31,013 | 27,914 | 25,729 |
| $ 32,531 | 26,833 | 29,377 | 26,197 | 25,884 | 25,157 | 22,783 | 21,206 | 20,977 | 17,402 |
| $ 29,497 | 24,426 | 23,334 | 22,525 | 22,523 | 20,337 | 19,202 | 17,780 | 17,679 | 16,096 |
| $ 1.16 | 0.96 | 0.92 | 0.89 | 0.89 | 0.80 | 0.75 | 0.70 | 0.70 | 0.63 |
| $ 20,352 | 18,316 | 18,316 | 18,315 | 18,314 | 17,551 | 16,787 | 15,755 | 15,491 | 14,705 |
| $ 0.80 | 0.72 | 0.72 | 0.72 | 0.72 | 0.69 | 0.66 | 0.62 | 0.61 | 0.58 |
| 69% | 75% | 78% | 81% | 81% | 86% | 87% | 89% | 88% | 91% |
| $ 31,848 | (10,490) | (14,122) | (10,277) | 24,409 | (12,177) | (18,572) | (16,057) | 689 | 6,821 |
| $ 52,825 | 49,137 | 45,864 | 39,053 | 35,286 | 32,648 | 30,989 | 30,443 | 28,537 | 25,975 |
| $ 2.08 | 1.93 | 1.80 | 1.54 | 1.39 | 1.28 | 1.22 | 1.20 | 1.12 | 1.02 |
| $ 17,795 | 70,595 | 114,189 | 76,721 | 4,513 | 11,172 | 7,661 | 23,453 | 12,350 | 3,057 |
| $602,312 | 587,340 | 518,799 | 405,657 | 334,507 | 330,676 | 320,023 | 312,670 | 289,465 | 277,382 |
| $292,829 | 265,184 | 223,470 | 141,191 | 119,087 | 93,663 | 90,992 | 100,073 | 108,378 | 115,339 |
| 25,443 | 25,439 | 25,439 | 25,439 | 25,436 | 25,436 | 25,436 | 25,415 | 25,402 | 25,362 |
| 93% | 92% | 91% | 90% | 89% | 88% | 88% | 87% | 86% | 84% |
| 21,066 | 21,996 | 21,486 | 18,321 | 16,290 | 15,521 | 14,127 | 12,757 | 12,582 | 12,353 |
| 641 | 603 | 562 | 621 | 599 | 589 | 592 | 598 | 608 | 594 |
| $940,000 | 974,000 | 923,000 | 653,000 | 558,000 | 561,000 | 541,000 | 523,000 | 476,000 | 467,000 |
| 659,382 | 542,093 | 475,437 | 386,331 | 340,263 | 313,923 | 271,366 | 271,610 | 251,214 | 241,717 |
| 224,890 | 225,755 | 236,613 | 239,466 | 245,435 | 228,777 | 216,250 | 190,281 | 171,657 | 146,927 |
| 16,452 | 17,489 | 17,524 | 15,863 | 14,812 | 14,110 | 12,608 | 10,887 | 11,190 | 12,611 |
| 817 | 550 | 205 | — | — | — | — | — | — | — |
| 2,579 | — | — | 3,502 | 6,836 | 4,903 | 4,487 | 4,178 | 123 | — |
| 904,120 | 785,887 | 729,779 | 645,162 | 607,346 | 561,713 | 504,711 | 476,956 | 434,184 | 401,255 |
| 116,386 | 111,504 | 106,832 | 107,050 | 106,817 | 106,118 | 90,313 | 88,176 | 89,629 | 88,375 |
| 380,570 | 351,270 | 338,624 | 317,969 | 320,145 | 308,226 | 285,556 | 267,903 | 235,897 | 220,200 |
| 496,956 | 462,774 | 445,456 | 425,019 | 426,962 | 414,344 | 375,869 | 356,079 | 325,526 | 308,575 |
| 142,686 | 135,451 | 116,196 | 97,371 | 94,054 | 85,318 | 75,990 | 63,587 | 55,671 | 51,921 |
| 49,836 | — | — | — | — | — | — | — | — | — |
| 121,822 | 105,540 | 96,847 | 60,344 | 44,159 | 31,862 | 30,596 | 34,178 | 38,850 | 32,579 |
| 89,619 | 72,206 | 58,228 | 54,556 | 39,769 | 26,521 | 21,512 | 16,738 | 12,438 | 6,741 |
| 403,963 | 313,197 | 271,271 | 212,271 | 177,982 | 143,701 | 128,098 | 114,503 | 106,959 | 91,241 |
| 900,919 | 775,971 | 716,727 | 637,290 | 604,944 | 558,045 | 503,967 | 470,582 | 432,485 | 399,816 |
| 444,318 | 366,287 | 337,978 | 289,691 | 267,354 | 241,264 | 221,691 | 207,724 | 186,562 | 170,468 |
| 1,351 | 1,293 | 1,288 | 1,245 | 1,211 | 1,184 | 1,202 | 1,209 | 1,182 | 1,168 |
| 40.7¢ | 40.4¢ | 40.2¢ | 39.9¢ | 39.8¢ | 39.1¢ | 40.5¢ | 40.5¢ | 41.6¢ | 40.0¢ |

NOTE: Per share amounts and shares outstanding prior to 1967 adjusted for five-for-one subdivision of capital stock.


ALBERTA
REDWATER
EDMONTON
STROME
HARDISTY
METISKOW
KERROBERT
SASKATCHEWAN
MILDEN
LOREBURN
CRAIK
REGINA
GLENAVON
CROMER
SOURIS
GLENBORO
MANITOU
GRETNA
MANITOBA
DONALDSON
VIKING
PLUMMER
CLEARBROOK
DEER RIVER
SU
NORTH DAKOTA
MINNESO
INTERPROVINCIAL PIPE LINE COMPANY
And its United States Subsidiary
LAKEHEAD PIPE LINE COMPANY, INC.
Legend
SIZE IN INCHES
LENGTH IN MILES
12 92
16 428
18 363
20 678
24 772
26 326
30 933
34 1,564
5,156
PUMPING STATIONS


ONTARIO
QUEBEC
SAXON
INO
GOGEBIC
IRON RIVER
RAPID RIVER
GOULD CITY
MANISTIQUE
MACKINAW
INDIAN RIVER
LEWISTON
SHELDON
WISCONSIN
WEST BRANCH
ADAMS
BAY CITY
NORTH BRANCH
WALWORTH
MICHIGAN
CHICAGO
GRIFFITH
NILES
MARSHALL
Tecumseh
DETROIT
Buckeye
TOLEDO
CYGNET
KEYSER
SARNIA
WOLVERTON
WESTOVER
BRYANSTON
PORT CREDIT
SMITHVILLE
TONAWANDA
BUFFALO
NEW YORK
WARREN
PENNSYLVANIA
ILLINOIS
INDIANA
OHIO